United States

[illegible] COMMISSION, CITY AND [illegible] DENVER, COLORADO, PUBLIC [illegible] COMMISSION OF WYOMING, ET AL.

United States Circuit Court of Appeals

TENTH CIRCUIT.

No. 2550.

COLORADO INTERSTATE GAS COMPANY, a corporation, PETITIONER,

vs.

FEDERAL POWER COMMISSION; CITY AND COUNTY OF DENVER, COLORADO; PUBLIC SERVICE COMMISSION OF WYOMING; COLORADO-WYOMING GAS COMPANY; and CANADIAN RIVER GAS COMPANY, RESPONDENTS.

No. 2551.

CANADIAN RIVER GAS COMPANY, a corporation, PETITIONER,

vs.

FEDERAL POWER COMMISSION; CITY AND COUNTY OF DENVER, COLORADO; PUBLIC SERVICE COMMISSION OF WYOMING; COLORADO-WYOMING GAS COMPANY; PUBLIC SERVICE COMPANY OF COLORADO; and COLORADO INTERSTATE GAS COMPANY; RESPONDENTS.

ON PETITION TO REVIEW AND SET ASIDE ORDERS OF THE FEDERAL POWER COMMISSION.

FILED SEPTEMBER 9, 1942.

VOLUME 6—Pages 3097-3670

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SHUTTE's cross-examination is set forth supra in Title 18 reading, "Original Cost of Colorado Interstate's Portion of the Physical Properties of the Denver Line to December 31, 1939, and as Estimated, from 1940 to 1947, Inclusive."

Commission WITNESS LUTTRING prepared, and there was introduced in evidence (Vol. LXXXXI, p. 13863) Exhibit 235, which is a comparison of costs to predecessor companies of assets acquired by Canadian from Amarillo Oil Company as of May 1, 1927, as shown by Commission's Exhibit 146, and Canadian's Exhibit 194. This Exhibit 235 shows the difference in the cost to predecessor companies as shown by Luttring's Exhibit 146 and Lusk's Exhibit 194.

Exhibit 235 is as follows:

CANADIAN RIVER GAS COMPANY

COMPARISION OF COST TO PREDECESSOR COMPANIES OF ASSETS ACQUIRED BY CANADIAN RIVER GAS COMPANY FROM AMARILLO OIL COMPANY AS OF MAY 1, 1927 AS SHOWN BY COMMISSION'S EXHIBIT NO. 146 AND RESPONDENT'S EXHIBIT NO. 194

Particulars (1)		References Exhibit No. 194 (2)	References Exhibit No. 146 (3)	Exhibit No. 194 Amount (4)	Exhibit No. 146 Amount (5)	Excess of No. 194 over No. 146 (6)
Cost to Predecessor Companies - Per Books		Statement No. 1	See Note	$1,759,626.33	$1,756,426.33	$ 3,200.00
Deduct - Accumulated oil royalties on Bivins Lease No. 18 excluded from assets acquired by Canadian River Gas Co.		Statement No. 12		3,200.00		(3,200.00)
Cost of property acquired by Canadian River Gas Co. per books of Amarillo Oil Co. as of May 1, 1927 before adjustment thereof				$1,756,426.33	$1,756,426.33	
Adjustments:						
Operated Gas Leaseholds:						
Elimination of cost of leases as recorded by Amarillo Oil Co.:						
Various vendors by assignment, April 1917 to Jan. 15, 1923:						
Recorded cost applicable to Amarillo Oil Co.	$4,244.24					
Recorded cost applicable to Mission Oil Co.	4,244.23	Statement No. 3	Page 68	$ (8,488.47)		$ (8,488.47)
Development and other recorded costs		Statement No. 3	J E 205 and Page 70	(417,681.81)	(417,681.81)	
Lease costs transferred to well costs		Statement No. 3	JE R-202	(76,318.00)	(54,508.94)	(21,809.06)
Lease costs substituted for lease costs eliminated in Statement No. 3:						
Cost of leases as recorded	$8,488.47					
Cost of leases removed from income account	8,136.41	Statement No. 3		16,624.88		16,624.88
Cost of leases transferred from well costs		Statement No. 3		3,131.86		3,131.86
Total adjustments to operated gas leaseholds				$ (4[illegible],731.54)	$ (472,190.75)	$(10,540.79)
Other Operated Leaseholds:						
Costs of leases transferred from well costs		Statement No. 12		$ 1,803.00		$ 1,803.00
Costs of leases removed from income account		Statement No. 12		284.92		284.92
Total adjustments to other operated leaseholds				$ 2,087.92		$ 2,087.92

CANADIAN RIVER GAS COMPANY
COMPARISON OF COST TO PREDECESSOR COMPANIES OF ASSETS ACQUIRED BY CANADIAN RIVER GAS COMPANY FROM AMARILLO OIL COMPANY
AS OF MAY 1, 1927 AS SHOWN BY COMMISSION'S EXHIBIT NO. 146 AND RESPONDENT'S EXHIBIT NO. 194

Particulars (1)		References Exhibit No. 194 (2)	References Exhibit No. 146 (3)	Exhibit No. 194 Amount (4)	Exhibit No. 146 Amount (5)	Excess of No. 194 over No. 146 (6)
Adjustments (Continued):						
Gas Wells:						
Well costs transferred from operated gas leaseholds		Statement No. 14	J E R-202	$ 76,318.00	$ 54,508.94	$ 21,809.06
Development costs removed from income account		Statement No. 14	J E 229	9,492.17	8,809.04	683.13
Elimination of tangible well costs recorded by Amarillo Oil Co. as at Jan. 15, 1925:						
Recorded cost applicable to Amarillo Oil Co.	($39,890.44)	Statement No. 14				
Recorded cost applicable to Mission Oil Co., et al.	(39,890.44)	Statement No. 14				
Well costs substituted for costs recorded in well and lease costs by Amarillo Oil Co. as of Jan. 15, 1925:			J E 205	350,134.47	289,147.77	60,986.70
Amarillo Oil Co.	89,566.32	Statement No. 14				
A. R. Jones, et al.	297,643.22	Statement No. 14				
Mission Oil Co.	42,705.91	Statement No. 14				
	$350,134.47					
Total adjustments to gas wells				$ 435,944.64	$ 352,465.75	$ 83,478.89
Total adjustments to lease and well costs		Statement No. 1	J E 203 and 229	$ (44,698.98)	$ (119,725.00)	$ 75,026.02
Subtotal				$1,711,727.35	$1,636,701.33	$ 75,026.02
Items originally charged to expense on books of predecessor companies now claimed by Respondent as capital expenditures in Exhibit No. 194:						
Delay rentals charged to income account of Amarillo Oil Co. in the following years:						
Year 1924	$ 65,820.93					
Year 1925	157,085.23					
Year 1926	148,796.95					
Year 1927	116,315.34	Statement No. 1		$ 488,018.45		$488,018.45
General and administrative costs which are purported to be restated from the income account		Statement No. 1		68,597.09		68,597.09
Interest Cost - Purported to represent interest during construction		Statement No. 1		34,298.55		34,298.55
Total				$ 590,914.09		$590,914.09
Total adjustments				$ 546,215.11	$ (119,725.00)	$665,940.11
Total cost to Predecessor Companies, as adjusted		Statement No. 1	See Note	$2,302,641.44	$1,636,701.33	$665,940.11

Exhibit No. 235
Sheet 3 of 3

[illegible]te:

[illegible]e assets acquired by Canadian River Gas Company from Amarillo Oil [illegible]mpany as of May 1, 1927 were recorded on its books in the following [illegible]tries:

V[illegible]. J-205-1928			
Operated gas leaseholds	$831,066.68		
Other operated leaseholds	4,205.00	$ 835,271.68	
Unoperated gas leaseholds		158,228.70	
Gas well investment		1,192,727.95	
Meter settings		4,009.59	
		$2,190,237.92	
V[illegible]. M-35-1928			
Gas department adjustment account		490,587.07	$1,699,650.85
Page 69 of Exhibit No. 146 (under particulars column 1), well costs which were omitted from J-205-1928:			
Bivins B-3 well	$29,012.43		
Warrick A-1 well	27,763.05		56,775.48
Total			$1,756,426.33

Mr. Lusk then testified at length as to his Exhibit 194 and Exhibit 235 containing the comparison between Exhibit 194 and Exhibit 146. (Vol. LXV, pp. 9366, et seq.; Vol. LXXVII, pp. 11,357, et seq.; Vol. LXXVIII, pp. 11,398, et seq.)

Witness stated that the principal properties with which Canadian started business were acquired from Amarillo Oil Company as of May 1, 1927, at a consideration of $5,000,000. (Vol. LXV, pp. 9366, et seq.) These properties were originally acquired by Amarillo Oil Company from three principal sources: One source was from the Mountain States Gas Company as of August 1, 1924. Mountain States Gas Company acquired its properties, for the most part, if not entirely, from Producers & Refiners Corporation. Mr. Lusk, in Exhibit 194, has found the costs of the properties to Mountain States Gas Company and Producers & Refiners Corporation. These costs were taken over on the books of Amarillo Oil Company without adjustment, and as to those properties there is no particular difference between Exhibit 146 and Exhibit 194.

One of the other principal sources of the properties transferred by Amarillo Oil Company to Canadian River was Mission Oil Company. (Vol. LXV, pp. 9369, et seq.) As of January 16, 1923, Amarillo Oil Company acquired Mission Oil Company's half interest in the Amarillo Oil Company's properties and paid for same by issuance of capital stock of Amarillo Oil Company. Mr. Lusk went back and determined the cost of that particular half interest to Mission Oil Company and its predecessors, A. R. Jones and associates. Practically the only difference between Exhibit 146 and Exhibit 194 relating to the Mission Oil Company properties is a dry hole known as Bivins 2 which Mr. Luttring excluded from his original costs and Mr. Lusk included. Mr. Lusk's reason for including it (Vol. LXV, p. 9372) was that at the time this well was commenced in May of 1920 all of these properties were in a development stage. Gas was not sold until late in October, 1920.

The third principal source of properties acquired by Amarillo Oil Company which were subsequently transferred to Canadian are miscellaneous, various and sundry acquisitions by Amarillo itself from April, 1917, to May 1, 1927. (Vol. LXV, p. 9372.) On account of adjustments made in Jan-

uary, 1923, the records of Amarillo Oil Company from April, 1917, until January 15, 1923, were extremely difficult to follow, so Mr. Lusk discarded them and went back to the original data of Amarillo Oil Company to determine cost for the period from April, 1917, to January, 1923. From January, 1923, to May 1, 1927, the records of the Amarillo Oil Company were in his opinion entirely adequate for the purpose of determining cost during that period. (Vol. LXV, pp. 9373, et seq.)

Line 18 of Exhibit 235 set forth above shows an item of $488,018.45 excess of cost in Exhibit 194 over Exhibit 146 made up of delay rentals charged to income account of Amarillo Oil Company during the years 1924 to 1927, inclusive. Mr. Lusk explained this entry in Exhibit 194 as follows: (Vol. LXV, pp. 9362-9363.)

"*Delay Rentals*

"The term 'delay rentals' usually applies to an amount paid a lessor for delay in drilling. Payments ordinarily cease when acreage becomes productive of gas and royalty payments begin. Amarillo made substantial payments to its lessors which were treated on its books as delay rentals, but which in fact served to discharge contract obligations which had no direct relation to the deference of drilling obligations. An outstanding example is the Bivins No. 30 lease wherein Amarillo was obligated to pay a minimum of $72,000 per year with deductions for royalties on gas actually produced. For a period extending from August, 1924, to December, 1927, Amarillo paid lessors $374,509.15 under such obligations. This entire amount is restored as a lease cost on the premise that payments of this nature during the development periods are properly capital.

"The above principle has also been applied to unoperated leaseholds and $113,509.30 representing delay rental payments has been restored as leasehold costs. The total amount of the above revisions, i.e., $488,018.45 is shown on Summary Statement No. 1."

Further testifying to this entry (Vol. LXXVIII, pp. 11,-400, et seq.) Mr. Lusk stated that Amarillo Oil Company had expensed these amounts of delay rentals on its books,

but Mr. Lusk had capitalized them in his adjustment; that delay rental means, and usually applies ~~to,~~ an amount paid to a lessor for delay in drilling. The definition of delay rental is practically the same in the Pennsylvania Code and the Uniform System of Accounts of the Federal Power Commission, and both mean a sum paid for delay in drilling. It is universally understood that all gas companies delay their drilling and pay rentals for the delay, and when the wells are drilled the delay rentals cease and the production becomes subject to royalty payment under the terms of the lease. In some leases there may be a lump sum payment made right at the outset which may be labeled a bonus or a part bonus and part rentals which automatically defers drilling over a period of years. Other leases do not follow the standard form and have specific provisions with reference to future drilling. In the case of a long-term lease, where the rentals or any amount is paid in advance it is questionable whether the entire amount should be charged to delay rentals or applied as an initial bonus. It might be capitalized or it might be expensed. (Vol. LXXVIII, p. 11403.) Royalties are ordinarily expensed; initial bonuses are capitalized. In the case of the expiration of a lease, with no well drilled on the property and a renewal of the lease with a payment made at the time of the renewal, this payment would be capitalized. If the lease contained a provision providing periodical payments in order to hold it, ordinarily such payments would be expensed. Mr. Lusk then again referred to the Bivins No. 30 lease as being indicative of a certain method of payment or a carrying out of certain obligations under a lease which he stated was typical of the various leases, the payments of which he removed from expense and capitalized in this entry. (Vol. LXXVIII, pp. 11405, et seq.) This lease is dated May 1, 1923, between Lee Bivins, as lessor, and Producers & Refiners Corporation, as lessee, and is identified in Exhibit No. 147. It provided for an $18,000 cash bonus payable at the time of its execution, and then contained the following additional provision: (Vol. LXXVIII, p. 11407.)

"* * * 'As additional or future consideration for this lease, the lessee expressly obligates itself to pay to the lessor, the Amarillo National Bank of Amarillo, Texas, a rental of $72,000 per year to be paid in quarterly installments of $18,000 each for a period of five years

from the date hereof; first of which is a cash consideration hereinabove recited and the others are succeeding payments to be made quarterly in advance until the royalties earned and paid hereunder equal or exceed such amount. It is the purpose and intent hereof that the lessor is to receive a minimum of $72,000 per year during such five-year period, either in rents or royalties, the rents to be absorbed in the royalties when the royalties exceed the sum stipulated as rentals.' "

Mr. Lusk then stated that this particular paragraph, plus the clause in the lease which particularly refers to drilling obligations, are the provisions he had in mind in capitalizing these payments. The drilling obligations are a part of the same lease, but the $72,000 was a guaranteed minimum under the lease. Mr. Lusk is not saying that the Amarillo Company erroneously treated these payments in expensing them, but states that they could all have been capitalized, and he has capitalized them, using the Bivins lease No. 30 as an example, because it contains the minimum guarantee clause and also drilling obligations. (Vol. LXXVIII, pp. 11409.) When he established the principle of replacing or restoring all of the delay rentals as part of Amarillo's costs, he carried this principle through with the other leases and arrived at the aggregate sum for the years 1924 to 1927 of $488,018.45.

Line 19 of Exhibit 235 sets forth an item of $68,597.09 shown as cost to predecessor company in Exhibit 194 and not so shown in Exhibit 146. This relates to general and administrative costs. This item appears on Statement No. 1 of Mr. Lusk's Exhibit 194, with the details on Statement No. 22 of that exhibit. Mr. Lusk's explanation in his preface statement to the exhibit (Vol. XLV, pp. 9363, 9364) is as follows:

"*General and Administrative Costs*

"In this study general and administrative costs are given combined consideration. The method generally has been to determine the percentage relationship of general and administrative costs to the combined primary costs of operation, maintenance and property additions. It is generally understood that general and administrative costs are not only applicable to the

operation of properties but also apply to construction and the acquisition of property during any period. The problem is to allocate a portion of general and administrative costs to the primary cost of Gas Wells, Leaseholds and Other Properties, either acquired or constructed. These costs have been determined and are summarized on Statement No. 22. In only two instances were assumptions made:

"(a) The percentage determined for Amarillo from April, 1917, to January, 1923, was applied to the properties acquired by Mission Oil Company from the Jones Interests on the premise that for a part of the time Amarillo and Jones each had a one-half interest in the properties.

"(b) Mountain States Gas Company after acquiring the Producers & Refiners Corporation properties in the Amarillo field, increased their holdings and then held the combined property for almost a year before sale to Amarillo. It was assumed that general and administrative costs of Mountain States Gas Company were the same in per cent as those of Producers & Refiners Corporation.

"After considering the relationship of the entire period from 1917 to 1927, 4.0 per cent was considered a fair and reasonable percentage to apply for general and administrative costs."

Further testifying as to this entry, Mr. Lusk (Vol. LXXVIII, pp. 11424, et seq.) stated that the basis for capitalizing these items was that the Amarillo Oil Company, from the date it was first incorporated up until the latter part of 1920, enjoyed no revenue nor any return for its investment. The same was true of the A. R. Jones Interests and the same was true of a small portion of the Mission Oil Company time. As shown by Statement 22, Exhibit 194, this item involves general and administrative costs of Amarillo Oil Company from April, 1917, to January 15, 1923; A. R. Jones, et al., from November, 1918, to May 1, 1922; Mission Oil Company from May 1, 1922, to January 15, 1923; Amarillo Oil Company from 1923 to 1927; Producers & Refiners Corporation from May 1, 1923, to August 23, 1923; Mountain States Gas Company from August 23, 1923, to August 1, 1924.

Neither of the predecessor companies capitalized any of their general administrative expense (Vol. LXXVIII, pp. 11424, et seq.). Mr. Iliff, in behalf of the Jones Interests, had reclassified the accounts of Amarillo Oil Company as of January 15, 1923, at the time Amarillo Oil Company acquired the Mission Company interests. (Vol. LXXVII, pp. 11366, et seq.) Mr. Iliff probably had the facts available to him, but Mr. Lusk does not think he considered this particular feature. (Vol. LXXVIII, pp. 11424, et seq.) Mr. Jones was an able oil man from the field angle, but Mr. Lusk does not know about his knowledge of bookkeeping practices. So far as Mr. Lusk knows, Mr. Jones made no objection to Mr. Iliff's failure to capitalize these administrative expense items; and for income tax purposes these items were expensed. Mr. Lusk does not think Mr. Iliff set up the combination of the Amarillo Oil Company and the Mission Oil Company according to any code, but simply followed his own ideas. (Vol. LXXVIII, pp. 11430, et seq.)

As appears from line 20 of Exhibit 235, Mr. Lusk, in Exhibit 194, has capitalized interest cost in the amount of $34,298.55, which is not so capitalized in Mr. Luttring's Exhibit 146. The details of this interest item are shown in Statement No. 17, Exhibit 194, and Mr. Lusk's explanation in his preface statement (Vol. LXV, pp. 9365-9366) is as follows:

"*Interest Cost*

" 'Amarillo' has never capitalized interest on its leasing and drilling activities, nor has the Company capitalized any interest on the properties acquired from others. Amarillo, the Jones interests, Producers & Refiners Corporation and Mountain States Gas Company were pioneers in the development of the Amarillo gas field expending substantial amounts of money which were tied up for considerable periods of time before adequate outlets for gas were available. Amarillo's investment was idle from April, 1917, to October, 1920, the date gas was first delivered at the well to Panhandle Pipe Line Company. The Jones interests had an idle investment from November, 1918, to October, 1920, and the investment of Producers & Refiners Corporation and Mountain States Gas Company was without revenue or return in any form from May 1, 1923, to August 1, 1924, the date of sale to Amarillo. During these periods

and periods of further development by Amarillo from 1923 to 1927, inclusive, interest should be charged to the development on all money advanced from the date of the first expenditure, to the time the development is in full operation and enjoying a reasonable return.

"Considering the nature of the development and the idle investment periods, it is concluded that a reasonable interest cost should be 2.0 per cent. Interest has not been computed on items heretofore charged to expense and restored as capital nor on general and administrative costs."

Further testifying as to this interest item (Vol. LXXVIII, pp. 11432, et seq.) Mr. Lusk reiterated the statements contained in his preface statement quoted above, and restated that the Amarillo's investment was idle from April, 1917, to October, 1920, when gas was first delivered at the well to Panhandle Pipe Line Company for sale at the city gate of Amarillo and distribution in the City of Amarillo. The Jones interests had an idle investment from November, 1918, to October, 1920, when gas was first delivered at the well to the Panhandle Pipe Line Company. Mr. Lusk applied the 2% interest rate to the total "cost to predecessor companies" of $1,714,927.35 shown in Exhibit 194.

Line 15 of Exhibit 235 shows an excess well cost of $60,-986.70 in Lusk's Exhibit 194 over Luttring's Exhibit 146. In his preface statement to Exhibit 194 (Vol. LXV, pp. 9357, et seq.) Mr. Lusk explains this entry as follows:

"*Gas Wells*

"The gas well account of Amarillo at the date of transfer to Canadian showed 23½ producing gas wells and one dry hole. From the records and correspondence relating to wells, it is evident that drilling operations of Amarillo began with the discovery well on the Masterson 'C' lease, completed about December 15, 1918. This well was also known as the Hapgood well. During the period from November, 1918, to May, 1922, the Jones interests drilled five producing wells and one dry hole, four of which were for Jones' account under the November 20, 1918, agreement, and two, including the dry hole, under Amarillo-Jones' joint account. The Amarillo-Mission joint venture started two wells which were

completed by Amarillo after January 15, 1923. Five complete wells and four wells in various stages of completion were acquired from Mountain States Gas Company as of August 1, 1924. Amarillo Oil Company drilled nine wells from January 16, 1923, to May 1, 1927, which included completion of two wells commenced under the Amarillo-Mission Oil Company agreement. The half interest in the Thompson No. 1 well was acquired from the Panhandle Refining Company, the original cost of which is unknown. In accounting for the number of wells transferred to Canadian, Bivins No. 2 dry hole disappears, although the cost of drilling was included in Bivins C-1. No adjustment has been made for this dry hole, the cost of which is not known, and further it is considered proper in the ascertainment of cost to include the cost of a dry hole with the cost of producing wells. Another dry hole cost included in the transfer of properties was Fuqua No. 1, which later was disposed of by Canadian in the Cliffside transaction."

Further testifying as to this entry (Vol. LXXVII, pp. 11384, et seq.) Mr. Lusk stated that this Bivins No. 2 dry hole was commenced about May, 1920; that no gas was sold by the company until late in October, 1920, and although the dry hole itself was not considered a dry hole and abandoned until January, 1921, he considers this dry hole as a part of the cost of development and, as such, a capital item and not an expense item, because it was drilled during the development period. The Amarillo Company did not treat this as an expense item. (Vol. LXXVII, p. 11386) although Mr. Iliff made certain adjustments in which he reduced the value of the well on an appraisal basis. Mr. Lusk is not sure he would have expensed this well, even though completed after the development period had ceased, unless there was a market available to support all the gas that was produced. In this particular instance he arrived at the time the development period ended when gas was first sold in commercial quantities to the City of Amarillo.

For Canadian there was introduced and received in evidence (Vol. LIV, p. 7477) through the witness Lusk Exhibit 184 entitled, "Canadian River Gas Company Original Cost of Production and Gathering Facilities Extended Through

1947." This exhibit is prefaced by the written statement of Mr. Lusk appearing in the record in Vol. LIII, pp. 7437, et seq. It consists of three statements. Statement No. 1 shows the original cost of production and gathering facilities year by year extended from 1939 through 1947. Statement No. 2 shows the original cost of all properties by systems extended through 1947. Statement No. 3 shows the additions to producing and gathering plant from 1940 to 1947, inclusive.

In this exhibit Canadian presents its computation of the original cost of the production and gathering properties of Canadian at December 31, 1939, as shown by Exhibit No. 183 heretofore abstracted herein, extended through 1947 to reflect the cost of added facilities estimated by Mr. Max Watson in Exhibit No. 94 as required to handle the increasing obligations of the company. The costs of new wells, well lines, and the sour gas plant shown by this exhibit are based largely on the oral testimony of Mr. Max Watson. Trunk pipe lines are priced at the estimated cost of labor and materials required (Estimates by Rhodes, Vol. LIV, p. 7466) and the miscellaneous costs are taken at current cost of reproduction new. Other than for changes made necessary by the required new facilities, there are no allowances for the cost of incidental facilities commonly provided in the development of a property.

As shown by this exhibit, the 1939 original cost of the production and gathering systems and the extension of such cost through 1947 is as follows:

Original cost at December 31, 1939; Exhibit No. 183	$10,620,625
Cost of required additional facilities (Statement No. 3)	1,409,520
Original cost extended through 1947	$12,030,145

The total cost of the additions as itemized year by year from 1940 to 1947, as shown by Statement No. 3 of Exhibit No. 184, is as follows:

Statement No. 3.

Item No.	Description		Total
	Production System		
	Gas Well Construction and Equipment		
1.	Additional Wells—Number (36)		
2.	Total Drilling and Equipment	$	802,800
3.	Reconditioning Old Wells—Number (31)		
4.	Cost of New Equipment		27,260
	Drilling and Cleaning Equipment		
5.	1—120 ft. Steel Derrick		1,560
6.	1—Semi-portable Cleaning Out Unit		10,000
7.	2—80 ft. Steel Derricks		12,000
8.	Total Drilling and Cleaning	$	23,560
	Field Measuring System		
9.	Additional Well Meters (37)		
10.	Cost of Well Meters		27,750
	General Property		
11.	Plum Creek Plant		5,000
	Gathering System		
12.	Lines to New Wells—Number (36)		
13.	Cost of New Well Lines		250,200
14.	Line to Masterson B-5		4,250
15.	Lay 11,600 feet 18 inch and 7,600 feet 16 inch Line		163,500
16.	Relay and add new Lines—Sour Gas		56,000
17.	Total	$	473,950
	General Property		
18.	1—Tractor		4,400
19.	1—Air Compressor		2,500
20.	1—Ditcher		5,600
21.	1—Electric Welder		1,700
22.	Total	$	14,200

Item No.	Description	Total
	Transmission System	
23.	Sour Gas Treating Plant	35,000
24.	Total Additions in Year(s) (1940 to 1947, inclusive)	$1,409,520

Statement No. 3 of Exhibit No. 184 shows the estimated cost of future property additions for the respective years 1940 to 1947, as follows:

1940	$ 96,420
1941	303,600
1942	259,800
1943	219,200
1944	154,900
1945	159,200
1946	183,200
1947	33,200
Total	$1,409,520

The total for the years 1942 to 1947 included in the above is $1,009,500.

With further reference to Exhibit 184 Mr. Lusk testified that the item, "Sour Gas Treating Plant," in the amount of $35,000 will, according to Mr. Watson's estimate, become necessary in 1942 and has been left off the transmission line system in Exhibit 133, but included in this production and gathering facilities Exhibit No. 184. (Vol. LIV, p. 7445.)

This Exhibit 184 starts where Exhibit 183 leaves off and is project in the future from 1939 to 1947, the extensions being based upon Mr. Watson's estimate of future requirements. (Vol. LIV, p. 7447.) No change has been made in the "Leasehold Item" and it is the same for the whole period through 1947, as, to the best of Mr. Lusk's knowledge and belief, there will be no change in the leasehold account during that period. (Vol. LIV, p. 7448.) This is based upon information secured from Mr. Hendee, General

Manager, Mr. Ford, General Superintendent, and Mr. Watson, General Assistant Superintendent. (Vol. LIV, p. 7449.)

Item No. 1 in Statement No. 3 from Exhibit 184 summarized above differs from Mr. Watson's estimate of the number of wells to be drilled contained in Exhibit 94 in that Mr. Watson's exhibit calls for 41 wells through 1947, whereas Exhibit 184 calls for 36 wells. The reason for this difference is that Mr. Lusk has deducted in Exhibit 184 one well in each of the first five years which are to be exploratory wells and to be expensed. (Vol. LIV, p. 7454.)

The unit cost for the drilling of wells is as estimated by Mr. Watson. (Vol. LIV, p. 7455.)

Mr. Lusk has *assumd* that the material cost will remain the same throughout the entire period, and he stated that this is the only assumption he can make. (Vol. LIV, p. 7459.) The other costs are based upon Mr. Watson's estimates of requirements and costs (Vol. LIV, pp. 7460, et seq.), and in some instances upon Mr. Rhodes' estimate of costs. (Vol. LIV, pp. 7466-7469.) No consideration has been given to retirement of any portion of any of these items of property, as Mr. Lusk does not understand any retirements are contemplated (Vol. LIV, p. 7469), and he knows of no wells which Canadian contemplates abandoning. (Vol. LIV, p. 7470.)

Mr. Lusk testified on cross-examination: (Vol. LXXVII, pp. 11357-11394.)

Q. Mr. Lusk, you have heretofore testified and presented your Exhibit 194 in this proceeding entitled "Cost to Predecessor Companies of properties acquired by Canadian River Gas Company as of May 1, 1927"?

A Yes, sir.

Q. And on the title page you repeat that descriptive matter. Exactly what do you contemplate under the word "costs" as that word is employed by you in the title of this exhibit?

A. In this exhibit I have included in the terminology of cost all of the costs that I found of the predecessor companies relating to the acreage and wells and properties turned over—or sold, rather, by the Canadian River Gas Company—

Mr. Spencer: By Amarillo Oil Company.

The Witness: Or by Amarillo Oil Company to the Canadian River Gas Company as of May 1, 1927.

By Mr. Lange:

Q. In other words, your exhibit here contemplates the various items that you say entered into the cost of those several properties to the predecessor companies?

A. Yes, sir.

Q. And you mean by "predecessor companies," the predecessor to Amarillo Oil Company?

A. Predecessor to Amarillo Oil Company and Amarillo Oil Company itself.

Q. And Amarillo Oil itself?

A. That's right.

Q. And I note that in your first page of the written statement you divide those main topics in your treatment in this exhibit into three divisions.

A. There are three divisions but there are really four classes as shown on Page 1 of the written statement.

Q. In other words, what do those first three contemplate?

A. Well, on Page 1 of the written statement, No. 1, are the acquisitions from various vendors between the date of incorporation of the Amarillo Oil Company in April 1927 and January 15, 1923, the date that Amarillo Oil Company acquired the Mission Oil Company interests.

The second one is the acquisition from the Mission Oil Company as of January 16, 1923 which included the properties acquired from A. R. Jones, and they were acquired by the Mission Oil Company from A. R. Jones and Associates. The third one is the acquisition from the Mountain States Gas Company as of August 1, 1924 of said Mountain States Gas Company, including the properties acquired from the Producers and Refiners Corporation, and the fourth period is the Amarillo Oil Company from January 16, 1923 the date of the Amarillo Oil Company acquisition of the Mission Oil half interest to May 1, 1927.

Q. And that treatment—or, rather, in that order the treatment follows in the exhibit, I take it?

A. Correct.

Q. Now in connection with the preparation of this exhibit, did you have available what records?

A. I had available all of the records of the Amarillo Oil Company from April 1917 to January 15th, 1923. I had available all of the records of the Jones interests, the Mission Oil Company from the time of the contract, and the Amarillo Oil Company and the Jones interest in November 18th up to the time of the sale of the Jones property to the Mission Oil Company and the Mission Oil Company from that date to January 16th, 1923, and I had available all of the records of the Mountain States Gas Company, including their predecessor company, the Producers and Refiners Corporation.

I also had all of the records of the Amarillo Oil Company up to May 31st, 1928, the date of the physical transfer of the properties.

Q. And with the availability of those records you proceeded to the preparation of this exhibit, and I notice that on Page 3 you begin that study—or the computations on operated gas leaseholds, is that the subject that you treat first?

A. Yes, sir, that is the first subject.

Q. Now, I recall in connection with Mr. Luttring's testimony given on Exhibit 146 that he sponsored that and your testimony subsequent to that—you made a statement, I believe, that you don't agree with Mr. Luttring's treatment of a number of items in that exhibit.

A. That is correct, particularly one item.

Q. Which item?

A. That the dry hole—the Bivins dry hole—

Q. Well, we get to that letter in this exhibit?

A. Yes, sir.

Q. What treatment did you accord operated leasehold investment in this exhibit that differs with that given by Mr. Luttring in his Exhibit 146?

A. In the case of operated leaseholds, Mr. Luttring treats the opening entry on January 16, 1923 as the beginning of the operated leaseholds of the Amarillo Oil Company, and I went a little bit beyond that in that I went back to April 1917 and picked up the actual acquisition of leases.

Q. On whose books?

A. On the books of the Amarillo Oil Company.

Q. The books of the Amarillo Oil Company?

A. Yes, sir.

Q. Exactly what do you contemplate under the term "operated" as used in connection with "leaseholds"?

A. Those are the leaseholds termed "operated leaseholds" in that they were apparently fully developed and were productive of gas.

Q. Well, you mean in distinguishing those from leaseholds from which there was no gas produced?

A. The unoperated leaseholds ordinarily mean that there is no gas production from those particular leaseholds.

Q. And such leaseholds are either held by paid-up rental or by annual delay rental?

A. Sometimes they are. In this case there are several different classifications regarding operated leases and unoperated leases.

Q. Well, at the time of the—strike that:

Do you make any distinction in connection with unoperated leases as distinguished from operated leaseholds in your treatment beginning at Page 3?

A. Yes, I compiled the operated leaseholds data on Page 3 and the unoperated leasehold data on Page 7.

Q. Now, what is the classification of acreage that you divided up between operated and unoperated leaseholds there?

A. On Page 3, third paragraph, I make the statement:

"The recorded cost of all of the operated acreage transferred by Amarillo to Canadian also shown on Statement 2, was stated at $831,066.68," and on Statement 2, I give a complete detail of it by lease.

Q. Statement 2 of your exhibit?

A. Yes, sir.

Q. Do you there divide the leases between operated and unoperated?

A. No, this is only operated gas leaseholds.

Q. It is limited only to the operated?

A. That is correct.

Q. Where do you treat the unoperated?

A. The unoperated leaseholds are shown on Statement No. 8, which is supported by Statements 10 and 11.

Q. The total amount for acreage of 34,076.42 covers the unoperated leaseholds?

A. That is the acreage, yes, sir.

Q. Statement No. 8 of the Exhibit, line 5, total unoperated leaseholds, $158,228.70, book cost, you have made no adjustment in that item at all?

A. No, sir, there were no adjustments applicable to the unoperated leaseholds as acquired by Amarillo Oil Company from Mountain States Gas Company and various lessors between January 16, 1923 and May 31, 1928.

Q. Why was there no adjustment made?

A. I didn't find anything that would lead me to make any adjustment in the unoperated leases.

Q. Do you have a copy of Mr. Luttring's Exhibit 146 with you, Mr. Lusk?

A. Yes.

Q. Will you turn to Page 68 of Exhibit No. 146, Summary of Cost of Leaseholds, 1928 to 1939, Column 3, Unoperated?

A. Yes, sir.

Q. There being a total there of $158,228.70?

A. That is correct.

Q. That is the same figure as shown on your Statement No. 8, isn't it?

A. Yes, sir, exactly the same figure.

Q. So there is no difference there at all?

A. There is no difference at all.

Q. Now, will you refer to Statement No. 2, Exhibit 194; also turn back again to Page 68 of Exhibit 146. Your Statement 2, Line 18, Column 14, is $831,066.68?

A. That is right.

Q. Now, Statement 1 of Exhibit—

A. Did you say Statement 1 or Statement 2?

Q. Going back to Statement 1 and then again back to Statement 2. I wanted to find out or identify that $831,066.68 on Statement 2 first. You have identified that?

A. Yes, I have identified that.

Q. Now, let's go forward to Statement 1 of the exhibit, Line 3, Column 4, Book Cost of Amarillo Oil Company, $7,405. What does that total include there, Mr. Lusk?

A. That $7,405 includes two oil and gas leases; one to Bivins and one to Warrick. I have separated them from operated gas leaseholds and separated it from unoperated

gas leaseholds and have set them up as Other Leaseholds.

Q. The $7,405 is made up of what dollar figures?

A. $3200 is on the Bivins and there is $4205 on the Warrick.

Q. $4205 on the Warrick and the other added to that makes $7,405?

A. Yes, sir.

Q. Going back to Statement 2 of the exhibit, is that Warrick lease in the amount of $4205 added to your total in Column 14, the total of $831,066.68?

A. Added, did you say?

Q. Yes.

A. No.

Q. I say, if it was added—

A. I beg your pardon.

Q. —you would get a total of $835,271.68?

A. That is correct.

Q. Now, turning again to Exhibit 146 on Page 68, under Column 2, Operated Leaseholds, you find there that same total of $835,271.68, is that right?

A. That is correct. If I take Statement 2 of my exhibit and add the Warrick lease amount of $4,205, that would be exactly in accord with Mr. Luttring's Exhibit No. 146, Page 68, Column 2, Operated Leases.

Q. Yes. Now, in what other respect do you say you don't agree with Mr. Luttring's on his leaseholds account?

A. Well, we are in exact accord on Operated Leaseholds after adding the Warrick, $4,205. We are in exact accord on the unoperated leaseholds of $158,228.70.

Q. Well, there isn't any further item that you are not in accord on on those two?

A. Not on those two, no, sir. There is a difference of $3,200 on the Bivins, as I classified it, "Combination Lease." It is an oil-gas lease, the same as the Warrick. That is the only difference Mr. Luttring and I have, the treatment of $3,200 on the Bivins lease.

Q. And now going back to Page 3 of your Exhibit 194, your written statement, I note that you have this to say in the middle of the first paragraph—no, really, it is the whole third paragraph:

"The recorded cost of all the operated acreage transferred by Amarillo to Canadian also shown on Statement No. 2 was stated at $831,066.68," and this particularly:

"At the time Amarillo acquired the Mission Oil Company interests as of January 15, 1923, a representative of Mission Oil Company reclassified the accounts of Amarillo Oil Company."

What was the occasion of that, Mr. Lusk?

A. Well the occasion of that has never been definitely decided, as to just why that reclassification was made. In fact, I could not trace many of the particular items making up that reclassification.

Q. Is that the work done by Mr. Iliff?

A. That is correct.

Q. And at whose instance—rather, whose interests did Iliff represent?

A. Mission Oil.

Q. And where was he sent from?

A. Kansas City.

Q. That was the residence of Mr. Jones, wasn't it? Wasn't that the residence of Mr. A. R. Jones?

A. That is correct, yes, sir.

Q. And what did Mr. Jones have to do with the sending of Mr. Iliff to do that work?

A. That I don't know.

Q. Is Mr. Iliff in the employ of Mr. Jones, or partially in the employ of Mr. Jones?

A. I believe he was employed by Mr. Jones.

Mr. Spencer: The Mission Oil Company.

The Witness: The Mission Oil Company.

By Mr. Lange:

Q. Is there nothing in the correspondence or the records of the company that show why Mr. Iliff was sent there to do that work at that time?

A. Not that I saw. The exact assignment of Mr. Iliff was just Greek to me. I don't know why he was sent there.

Q. You mean the records don't disclose any reason at all—no correspondence on it?

A. Well, I didn't go through the correspondence to find out just what Mr. Iliff's particular mission was.

Q. Well, he certainly did something very important there, didn't he? It wasn't just casual treatment of any of the records of the company by him?

A. No, I think he was primarily sent there and given that assignment to consolidate the Mission Oil Company and the Amarillo Oil Company, as far as their books and records were concerned.

Q. And how much did he devote to that, how much time?

A. I don't know.

Q. The records don't indicate how long he was there or how much of his time he put in to complete that particular work?

A. No, I didn't delve into the records that far,—that closely, to find out just what Mr. Iliff was—what his particular assignment was.

Q. Well, the records do indicate, or do they indicate, rather, that he did devote sufficient time to that work as would ordinarily be devoted to a job of that kind?

A. I couldn't answer that, Mr. Lange. I don't know just what time he spent there.

Q. The records don't disclose who else worked with him or how many were on the work?

A. I don't know. I didn't go into the record that deeply.

Q. Did you ever discuss it with Mr. Iliff?

A. I never saw the man.

Q. Is he still in the employ of any of the companies?

A. I couldn't say.

Q. Connected with Canadian River in any capacity?

A. I don't know.

Q. Well, when did you first—

Mr. Spencer: Would you mind if I say that he is not?

Mr. Lange: He is not?

Mr. Spencer: He is not, that's right.

By Mr. Lange:

Q. Since when has he been out of the organization?

A. I don't know.

Mr. Spencer: You can take it for what it is worth, but he never was an employe of Southwestern Development Company or any of its subsidiaries. He was an employe of Mission Oil Company and he was sent out by the Mission Oil Company for the purpose of setting up these books and records at the time of the transfer of the Mission half in-

terests in its properties to Amarillo Oil Company. I think the record is also clear that the Amarillo Oil Company adopted what he did at that time.

By Mr. Lange:

Q. You do, Mr. Lusk—I was just coming to that—you do know that he did in fact complete his work on the books of the company—Mr. Iliff did?

A. What Mr. Iliff did was apparently accepted by the Amarillo Oil Company and it was the basis of their opening entry as of January 16. 1923.

Q. Now, then, in that accounting work of his and all the entries made by him in connection with that job remained as he put them on the books of the company, didn't they?

A. That's right.

Q. Now coming back to your Statement 3, you say this:

"This reclassification purported to restate all transactions of Amarillo acting individually, Amarillo-Jones joint account and Amarillo-Mission joint account. The result of the reclassification as shown on Statement 2 was a wholly erroneous statement of leasehold costs, due primarily to the inclusion of all drilling costs incurred by Jones and Mission as leasehold costs."

Now, what is the main basis of your complaint of Mr. Iliff's classification there, Mr. Lusk?

A. The main basis of my complaint of Mr. Iliff's reclassification was that all of the drilling costs of A. R. Jones and part of the incomplete well costs of the Mission Oil Company—that is, I am speaking now of drilling—were included in leasehold costs so that at the outset it was a wholly erroneous statement of fact.

Q. Now, what record did Mr. Iliff have at his disposal—or what records did you have at your disposal, that Mr. Iliff did not have?

A. Why, I don't know, and I couldn't find out and I don't know today just what Mr. Iliff did do with certain accounts or just how he treated them.

Q. Well, all right, let's go to your Statement No. 2 of Exhibit 194. Which of the leases is the first lease that you are particularly concerned with as not having been given the proper treatment by Mr. Iliff in his accounting?

A. Take the Masterson 54, 55, 56 and 58. On that acreage the first well was drilled in—the discovery well, and that acreage as shown on Statement 2 of the Masterson 54, 55, 56 and 58, and that is the C, D, E & B lease of approximately 32 or 33 thousand acres. The acres themselves did not cost $261,364.36.

Q. What did they cost?

A. The actual acreage cost is shown on—that actual acreage of the Masterson B, C & D and E lease cost, respectively—Masterson B & C leases—

Mr. Spencer: Where is it shown, Mr. Lusk?

The Witness: On Statement 3—$12,319.17.

The D lease cost $1,743.79, and the E lease, $313.91.

Now those costs were arrived at by going back to the original lease acquisition by the Amarillo Oil Company from April 1917.

By Mr. Lange:

Q. Now, then, which is the next lease that you were adjusting the cost item on?

A. Well, I adjusted the Bivins C and D lease on Statement 2, just above the $261,364.36, the item above that lease 53, Bivins C & D, $160,561.68. That lease did not cost $160,561.68. That lease cost, as shown on Statement 3, $2,248.01.

Q. All, right, now, which is the next one?

A. That is all of the adjustments as far as the adjustments between the leases and the wells are concerned, due to the consolidation of the Mission Oil Company and the Amarillo Oil Company as of January 16, 1923.

Q. That disposes of that particular transaction?

A. That is correct.

Q. Now turn to Page 4 of your written statement, the paragraph beginning with "Subsequent acreage transactions." You set forth and you speak of "how much acreage changed hands is not known as the books did not record acreage. However, other records do indicate the sale of substantial acreage and prices ranging from $15 to $30 per acre."

Where did you get those figures of $15 to $30 per acre?

A. The acreage that I indicate here in this written statement on Page 4 was obtained from the old check book in which was recorded the sales of acreage.

Q. To whom were those sales made?

A. Well, there is quite a formidable list, Mr. Lange.

Q. Oh, there is? How many?

A. Oh, there must be 35 transactions here—approximately 35 transactions.

Q. Were those sales made to anyone connected with the company—stockholders or otherwise?

Mr. Spencer: I don't know that he knows who the stockholders were at that time.

By Mr. Lange:

Q. Officers—directors?

A. Well, I note here that acreage in small lots was sold to Mr. Neally and Mr. Nobles, and Mr. Nobles and Mr. Neally again. Mr. Nobles was President and Mr. Neally was Treasurer of Amarillo Oil Company at that time.

Q. How much acreage did they buy at that time?

A. My note has 60 to Mr. Neally and Mr. Nobles, and 160 to Mr. Nobles, and I have quite a few blanks here. It did not state on the check book just who the buyers of that acreage were.

Q. And the other buyers—the names aren't familiar to you as having been in anywise connected with the company or either of the companies?

A. No. From my knowledge of the old Amarillo Oil transactions, I would say that most of the acreage as I have it listed here was sold to drillers.

Q. To drillers?

A. Yes.

Q. And at what price?

A. Oh, anywheres ranging from $15 up to $30 an acre.

Q. And what approximate sizes are the acreage?

A. From 20 acres up to 160 acres.

Q. And what period of time was that?

A. Between August 3, 1918 and April 8, 1920.

Q. Are those the only sales you could find any record of?

A. They are the only sales of acreage—

Q. Acreage?

A. That is right.

Q. At that time?

A. That is right, that is, sold by the Amarillo Oil Company.

Q. Did you find any record of acreage sold in August 1918 by the Amarillo Oil Company?

A. That is what I just said, from August 3, 1918.

Q. Did you find any acreage sold at that time by Amarillo Oil Company for $3 an acre?

A. That was a transfer to Hapgood.

Q. 1440 acres?

A. 1760 acres, 2¾ sections.

Q. Who was the purchaser?

A. Hapgood. That was an assignment made to Hapgood for 2¾ sections of land allotted to him under the contract. Hapgood was the driller of the first well.

Q. You say that was an assignment to him. Every transfer of acreage is an assignment, whoever purchasing it getting an assignment?

A. That is my understanding.

Q. In other words, these purchasers you refer to and that are on that list, they are all holders of assignments of acreage, aren't they?

A. That is correct.

Q. Just like Mr. Hapgood obtained an assignment from Amarillo Oil Company for that acreage?

A. That is correct, the only distinction being the Hapgood 2¾ sections of 1760 acres was assigned to him for an amount of $5,920 without profit and the other acreage transactions apparently included a profit.

Q. Wasn't there another transaction for a block of 320 acres sold at $5 an acre in August 1918?

A. I don't have any record of that as of August 1918.

Q. You said 1760 acres went to Hapgood?

A. That is right, 2¾ sections.

Q. This was probably part of that same transaction. Why was it they made the assignment of that acreage at prices way below those you have just given?

A. Under Hapgood's contract for the initial well he was to reserve for himself 2¾ sections of land.

Q. That is true, but you are setting up this $15 to $30

per acre as an index of the range of prices while that acreage was going at the time on your statement.

A. That is a straight sale and I still say that the acreage was sold at prices ranging from $15 to $30 an acre. Hapgood had a contract in which he was assigned for his own use 2¾ sections of land, or 1760 acres. There may be some distinction between that type of sale.

Q. In your statement you are making a direct distinction, aren't you? You are not giving that any consideration at all in fixing your basis per acre price at which those tracts were sold at that time? You are disregarding that Hapgood assignment entirely?

A. That is right, yes, sir.

Q. You don't think that ought to have gone into your basis of determining the probable range of prices per acre?

A. No, I could have added another sentence in there and have said "These acreage sales does not include the assignment to Hapgood of 2¾ sections under his contract."

Mr. Spencer: For the drilling of a well?

The Witness: For the drilling of a well.

By Mr. Lange:

Q. You didn't give it any consideration in determining this basis of $15 to $30 an acre?

A. No, sir.

Q. And those were the only sales that you found any records of at that time?

A. They were the only sales of acreage I could find in going through the records of the Amarillo Oil Company, that is right. This was a list of some 35 separate transactions.

Q. You don't know whether any of those other assignees or purchasers were in any way connected with the company?

A. No, I do not.

Q. Let's go back to your Statement 3, Exhibit 194, and also to Page 7 of Exhibit 146. We will go to Statement 3 of your exhibit first. Line 6, Column 6, there you have an item of $421,926.04. What does that represent?

A. That is the recorded cost of A. R. Jones, assigned to the Mission Oil Company as per Statement No. 5. That is the drilling cost of the Jones wells.

Q. Now, on that same statement 3, Line 1, Column 4, there is an item of $4,244.24.

A. Yes, sir.

Q. Wherein do those two items—strike that.

How did you reconcile those two items with Mr. Luttring's adjusting entry 203, Page 7, Exhibit 146?

A. Well, on Page 7 of Mr. Luttring's Exhibit 146 is a total credited to operated leases of $417,681.81, that would correspond with my $421,926.04 less the $4,000—

Q. In other words, what I was getting at, was it the difference between your $421,926.04 and Mr. Luttring's $417,681.81 as shown on Page 7, Exhibit 146, which was $4,244.23?

A. That is correct. The difference between Mr. Luttring's exhibit and my exhibit in that particular respect is in agreement.

Q. Is in agreement?

A. Yes.

Q. What was the basis of your treatment of this item in Column 4, Statement 3, of your exhibit, Mr. Lusk, where you eliminated the cost from the company's books?

A. I eliminated the recorded cost and substituted cost on Statement 4, which is a built up cost from the beginning of the Amarillo Oil Company up to and including January 15, 1923.

Q. In that respect do you give that a different treatment than from what was shown on the books of the Amarillo Oil Company?

A. That is correct, yes, sir.

Q. Now, let's at this time turn to Page 8 of your written statement covering other leaseholds. It states:

"Among the gas leaseholds included in the transfer by Amarillo to Canadian, as shown on Statement No. 12, were (a) the Warrick lease, and (b) the Bivins No. 18 lease."

The Warrick lease is the same Warrick lease we have just discussed?

A. That is the $4,205.

Q. "On each of which was located a so-called combination well capable of producing both oil and gas as of the date of transfer."

Now, where in your written statement do you cover that treatment of these two leases?

A. That is in the written statement, Page 8.

Q. I mean in your statements in the exhibit.

A. Statement 12.

Q. What is the basis of your treatment of the two items of cost there?

A. The reason I treated those particular leases as substitute leases was due to the fact that as of May 1, 1927 when the agreement was made, and as of May 31, 1928 when the actual physical transfer of property took place from Amarillo Oil Company to the Canadian River Gas Company, the wells on the Warrick lease and the Bivins lease—the two leases shown on Statement 12, were transferred at a price which included only the physical equipment in the well. The drilling costs were later transferred; furthermore, they were always treated as separate oil lease and oil well items.

Q. In that treatment, what is the net difference between your cost and the cost that has been set up by Amarillo Oil Company on its books?

A. The only difference there is the amount I have taken in Item 6 and Item No. 7, Cost of Obtaining at 10.05 cents per acre and the proportion on acreage basis of miscellaneous legal costs from April 1917 to January 15, 1923, all shown on Statement 4.

Q. Is that beginning down on Item 14?

A. All of the miscellaneous cash expenditures for recording legal maps and abstracts, etc., were divided on an acreage basis. Line 5 also contains miscellaneous cash expenditures.

Mr. Spencer: What statement, Mr. Lusk?

The Witness: Statement 4.

By Mr. Lange:

Q. $1,429.85 is shown on Line 5?

A. I didn't hear you.

Q. $1,429.85 is the amount shown on Line 5?

A. That is right, yes, sir.

Q. And the other was indicated on Line 14?

A. Line 11 and Line 14 and Line 24. All of those miscellaneous expenditures were divided by the total amount of acres held at the time those expenditures were made.

Q. There weren't any changes made in that recording?

A. Sir?

Q. There were no changes made by you?

A. Not in those leases, no, sir.

Q. On Page 5—strike that.

Going back to Page 8 of your written statement again, didn't you take into consideration the matter of oil royalties affecting the cost of that lease?

A. No.

Q. Well, in what way was this difference of $3200 taken care of?

A. That $3200 was taken care of on Statement 12. That was a payment made to Lee Bivins.

Q. Statement 12?.

A. Statement 12, yes, sir.

Q. What was that for?

A. That voucher read, "Payment for Oil Royalty or Oil Rights."

Q. Didn't that cover oil royalties?

A. No, I wouldn't say royalties. I would say oil rights. I am not sure. I would have to see whether I had a copy of that voucher or not. I believe it read "oil rights" in the amount of $3200. That was made in 1926.

Q. You don't have that voucher here?

A. No.

Q. What does the Journal Entry M-520 show there?

A. What?

Q. The Journal Entry JM-520 in 1928.

A. Whose entry?

Q. The Amarillo Oil Company—the Canadian River's?

A. M-520, did you say, on Canadian River?

Q. Yes, in 1928.

A. I will have to look that up. You want to know just what the character of the entry was?

Q. Yes. Didn't Amarillo Oil Company charge that to surplus, that $3200?

A. I don't see how the Amarillo Oil Company could charge something on a Canadian River entry.

Q. Will you look at M-520 and maybe we can clear it up.

A. I still don't get it how the Amarillo Oil Company could charge something on a Canadian River's entry.

Q. You don't know exactly what the voucher itself provided?

A. I know on M-12-18 the Amarillo Oil Company in December 1928 restored Bivins B-3 lease previously written off by crediting paid in surplus by \$3200. Will that clear it up?

Q. I think that ought to give us exactly what we want on that.

Now, what was that—

Mr. Spencer: Does that release him having to get that voucher?

Mr. Lange: That will obviate the necessity of him getting that voucher.

Mr. Spencer: All right.

By Mr. Lange:

Q. Oh, yes, when we come to the consideration of the Canadian River Gas Company's lease costs, was that item ever included in it?

A. On the Bivins B-18 the recorded cost of the Amarillo Oil Company was \$7,965.67 and in arriving at the \$831,066.68 as shown by Mr. Luttring's Exhibit and my Exhibit that \$3200 was deducted.

Q. In other words, that was never taken up by Canadian River Gas Company?

A. No, that is correct, but when the Amarillo Oil Company restored it to surplus and charged it to leases, I picked it up here.

Q. There wasn't any acreage of any kind involved in the transaction, was there?

A. No, it was a part of lease 18.

Q. Where did Parcomas Oil Company come into the picture?

A. I don't know.

Q. Have they gotten any of the oil rights in connection with that?

A. I couldn't tell you offhand.

Q. You may make a note of that if you will.

Mr. Spencer: I will stipulate they did get the oil rights on it.

Mr. Lange: You will stipulate they did get the oil rights on it?

Mr. Spencer: That is right, Mr. Lange.

By Mr. Lange:

Q. When they got the oil rights they acquired this cost with it, didn't they?
A. If they got the oil rights they should have taken the $3200, that is correct.

Mr. Spencer: I will stipulate that, too, Mr. Lange.

By Mr. Lange:

Q. Now, on Page 9 of your exhibit, treatment of gas wells, in accounting for the number of wells transferred to Canadian River Gas Company, Bivins No. 2 dry hole disappears, although the cost of drilling was included in Bivins C-1. No adjustment has been made for this dry hole, the cost of which is not known, and further, it is considered proper in the ascertainment of cost to include the cost of the dry holes in the cost of producing wells. Just exactly where do you—rather, what do you base this conclusion upon that it is considered proper to include that cost?
A. In the development program, such as this, and in the drilling of a dry hole, this particular dry hole was commenced about May.
Q. What year?
A. 1920.
Q. 1920.
A. And gas was not sold except for drilling purposes until late in October of 1920. Although the dry hole itself was not itself considered a dry hole and abandoned until January of the following year and that is the reason that I have considered that dry hole as part of the cost of the development in the early period of the Amarillo Oil Company.
Q. Well, what was the status of the drilling operation of that well in October 19—what year did you say that was?
A. 1920.
Q. —1920?
A. They were still fishing. The hole itself was in but they were still fishing for tools as far as the records are concerned.

arrive at the time that you say is the period that the development ended?

A. When gas was first sold in commercial quantities.

Q. To the City of Amarillo?

A. Well, possibly. That was the only place that gas could go in those days.

Q. Let's see, what was the cost of that dry hole?

A. In the neighborhood of $50,000. I don't know exactly how much it cost.

Q. Do you know what depth they went?

A. Around 3800 feet.

Q. Who drilled the well?

A. Greenlees-Dick drilled that well, I believe.

Mr. Spencer: By contract?

The Witness: By contract with Amarillo Oil and A. R. Jones interests.

By Mr. Lange:

Q. Do you know in what block they drilled it?

A. I do have that information somewhere. It is one of those—

Mr. Spencer: Go ahead. I'll get it.

By Mr. Lange:

Q. I see you have another dry hole, Fuqua No. A-1.

A. That's correct. That well was later disposed of by Canadian River in the Cliffside transaction.

Q. Do you know whether that—you don't know the acreage on which that was drilled?

A. No. I can find out.

Q. Both of those.

A. Yes, I can give you the answer to the first one, because it is in my memorandum here. Mr. Spencer has it.

Mr. Spencer: Would it be sufficient to stipulate that the location of the Fuqua well was on the helium structure?

Mr. Lange: Yes.

Mr. Spencer: All right, we'll stipulate to that.

Mr. Lange: I'll tell you what, if we could get the block in which that was drilled it would probably be best.

The Witness: Mr. Lange, I can give you the block on the Bivins dry hole.

By Mr. Lange:

Q. All right.
A. Section 2, Block M-20 of the G & M Survey.

Mr. Spencer: What County—Potter?

The Witness: It doesn't state the county. It was classified as the Bivins C-2 well. It was really the Bivins 2 well and then it was classified as the C-2 well.

By Mr. Lange:

Q. The Fuqua well was drilled on Section 4 of Block JAD-BS & F Survey in Potter County?

Mr. Spencer: Well, we'll stipulate that, Mr. Examiner, subject to check.

The Trial Examiner: Did Mr. Lusk give the county on the Bivins well?

The Witness: Yes—Potter County. It is on the map. I didn't have a record of it.

By Mr. Lange:

Q. Now, this Hapgood well that you referred to on Page 9 of your written statement. Is that the first producing gas well that Amarillo had?
A. Well, I don't know whether it was the first producing well or not. It was the discovery well in the Amarillo field.
Q. Now, I wonder whether that is the same well that is referred to in Exhibit 16, Page 132, the memorandum of contract between the Amarillo Oil Company and Perry A. Little, Paragraph 1, as this says:

"There is now on Section 65, Block 0-18 D & P Survey, in Potter County, a gas well called the Hapgood well," and again Section 4, Sub-paragraph 2, at Page 133, "It is assumed that the one producing well now on Section 65 known as the Hapgood well." Is that the well? I want to be sure that that is the same well.

Mr. Spencer, is that the same well as shown on Exhibit 95 as the Masterson C-1?

Mr. Spencer: Why, I think it is, Mr. Lange. I think that is the same well.

The Witness: Are you withdrawing your question to me?

Mr. Lange: Yes. In other words, will you stipulate that that is the same well, Mr. Spencer, subject to check?

Mr. Spencer: Yes.

Mr. Lange: I want to be sure that I have it definitely located.

Mr. Spencer: All right.

By Mr. Lange:

Q. In your written statement on Page 9 of Exhibit 194, referring to that well you cite that it was completed about December 15, 1918. That would tie right in with that contract.

At that time this contract at Page 132 of Exhibit 16 was made December 7th, 1918 and they left the capacity blank. Where did you get the information about the completion date of that well, Mr. Lusk?

A. That is in the records of the Amarillo Oil Company.

Q. I see. On Page 10 near the bottom of the page you have this statement on wells: "Complete and incomplete wells purchased from Mountain States Gas Company were properly recorded in gas well account. The adjustment of $76,318 shown on Statement 14 represents the estimated cost of wells acquired from the Mountain States Gas Company as shown on statement 7 and erroneously included as leaseholds." What is the basis of your determination there?

A. Well, in that particular case on leases 1088 and 1089, I believe it was, I assumed an initial bonus cost of a dollar an acre plus subsequent additions to the acres as acreage expenditures and from that—or that amount, I subtracted from the total cost of acquisition by the Mountain States Gas Company and that gave me $76,318 as shown on Statement 14.

Now, that corresponds very closely with the amount of $76,000 that was added back under the gas well adjustment account in 1925 of $76,000.

Q. $76,318?

A. Yes, sir.

Q. As shown under Column 7 of Statement 14?

A. That's right.

Q. Referring to Exhibit 146, Page 16—Page 6, rather, Entry R-202, do you reconcile your treatment of that with Mr. Luttring's?

A. This entry here doesn't have any bearing on $76,318.

Q. Not on your treatment of those items on Statement 14?

A. The only item on Statement 14 that refers to adjustment of Mountain States Gas Company is the $76,318.

Q. And that appears the same—you made no change in that, then, from what it is recorded on the books of Amarillo Oil?

A. No, I didn't touch the H-1 and the I-1 and the G-2.

Q. The only one that is affected is the F-1?

A. The F-1 lease. I will change that answer, Mr. Lange.

Q. All right.

A. On Mr. Luttring's Exhibit, Page 6, Leases 1071 and 1077, are accorded the same treatment in Exhibit 194 as they are in Exhibit 146. Now, on Mountain States Gas Company leases 1088 and 1089 in Mr. Luttring's exhibit they have been transferred from operated leases to gas well investment and in Exhibit 194 they have been ignored.

Continuing his cross-examination, and on redirect examination, Mr. Lusk further testified: (Vol. LXXVIII, pp. 11398-11448.)

Q. Mr. Lusk, on recess yesterday afternoon Commission's counsel submitted to you the reconciliation figures that were prepared by Mr. Luttring as affecting his Exhibit 146 and your Exhibit 194. A copy of it was given to you. Have you had a chance to check that over?

A. As I mentioned yesterday afternoon, I don't know as I mentioned it for the record or not, but I made up a similar reconciliation and my reconciliation shows $74,546.75 against Mr. Luttring's $75,026.02.

Mr. Spencer: Identify that figure, Mr. Lusk, where it is in Mr. Luttring's reconciliation and what it is.

Mr. Lange: Yes.

The Witness: You mean the figures that I reconciled?

Mr. Spencer: Yes.

The Witness: On Page 1 of the reconciliation sheet that was submitted last night, the $8,488.47 on Line 4 is in accordance with my exhibit and my reconciliation.

By Mr. Lange:

Q. Line 4, Columns 4 and 6?
A. Yes.
Q. Of Sheet 1.
A. Of Sheet 1.

The amounts shown in Line No. 6, Column No. 6, $21,809.06, that is correct. The differences in Column 6, that is, Exhibit 194 over 146, in lines 7 and 8, they are in agreement.

Q. You mean Lines 7 and 8?
A. Lines 7 and 8. The differences in Column 6, Line 11, and Line 10, they are in agreement.

On Sheet 2, Line 13, is a contraentry to the $21,809.06 shown on Line 6 of Page 1, and the difference on Line 14 of $683.13, that is in agreement, and on Line 15, $60,986.70, that includes the cost of the Bivins dry hole, and the net amount shown under sub-total of Line 17, $75,026.02 is substantially in agreement with the reconciliation I made with the exception of $479.00.

Q. $479.00?
A. Yes, sir, and that entire difference is composed of the cost of drilling the Bivins C-2 dry hole.

The difference in the original lease cost to the Amarillo Oil Company over and above those set up as of January 16, 1923, the difference in the lease cost on the Bivins oil and gas lease of $3,200 plus the $2,087.92 shown on Line 12 of Sheet 1, and there is also a $9,147.66 difference in the original cost of the wells drilled by A. R. Jones and Associates before transfer to the Mission Oil Company and its difference of $683.13 on wells drilled by the Amarillo Oil Company, that makes up the entire $75,000.

Q. I see. Now, on your matter of delay rentals, the next item that appears in your written statement on Page 15, is

also the next one that is treated by Mr Luttring on his reconciliation statement, isn't it.

A. It appears on Statement 1 under Exhibit 194. That is my exhibit, and Mr. Luttring eliminates them.

Q. Now, going to your Page 15 of your written statement of Exhibit 194, as I understand it there basically you are proceeding with the matter of capitalizing these items that are labeled by you as delay rentals—or, rather, capitalizing these items of delay rentals which have heretofore been expensed by the company.

A. The Amarillo Oil Company expensed these amounts of delay rentals.

Q. And you are capitalizing them?

A. I am restoring those delay rentals in Exhibit 194.

Q. Now, then, what is your definition of a delay rental?

A. Just as I have it here on Page 15, the term delay rental usually applies to an amount paid to lessor for delay in drilling.

Q. Is that your own interpretation of what the term means?

A. Well, I think that is an accepted term in the gas industry, the term delay rental.

Q. You were referring a number of times to the Uniform System of Accounts of the State of Pennsylvania, effective 1920, weren't you? In your previous testimony didn't you refer to the Pennsylvania Commission Uniform System?

A. That is quite right but I don't think Amarillo Oil Company had anything to do with the Pennsylvania System.

Q. Do you know what the Pennsylvania System had in its provisions as to rentals on operated leases or how they defined that term?

A. I think the interpretation under the Pennsylvania Code is practically the same as the first sentence there.

Q. Do you know what the definition of the term delay rental is under the Uniform System of Accounts of the Federal Power Commission?

A. It is practically the same as this.

Q. In other words, No. 510, Delay Rentals: "This account shall be charged with the amount of rents paid periodically on natural gas lands in order to hold natural gas lands and land rights for the purpose of obtaining a supply of gas in the future"?

A. That is correct.

Q. The provision in the Pennsylvania Code reads: "Charge to this account the amount of rent accrued during each accounting period on gas leases which are being held by the utility for future production of natural gas."

A. That is right.

Q. All right, where is that definition in either code limited to the rentals paid to defer drilling?

A. Well, the interpretation of those codes, both the Pennsylvania and the Federal Power Code, is really a delay rental paid for delaying a particular drilling.

Q. How do you know that is the limitation of that provision?

A. Well, it is universally understood that all gas companies delay their drilling and they pay rentals for that particular delay, and when the wells are drilled and delay rentals cease the production is subject to a royalty payment under the terms of the lease.

Q. Yes, that is true that a great many leases—it may be in the majority of leases—there are provisions providing for the payment to be made periodically in the event it is desired to defer drilling; in others there may be a lump payment made right at the outset; it may be labeled a bonus or it may be labeled part bonus and part rentals which automatically defers drilling over a period of years—sometimes even ten years—isn't that true?

A. That is true. If the bonus payment were made in advance they might defer it for any time.

Q. Other leases don't follow the standard form and write in specific provisions as to what the contracting parties may desire as to future drilling?

A. That is right.

Q. If provision with reference to payments during the life of the lease in the nature of rentals is made, don't you think such obligation is just as the term reads, "a rental"?

A. Well, the term "rental" in the case of a long term lease where the rentals are paid in advance, or in any amount paid in advance, would make it questionable as to whether the entire amount should be charged to delay rentals or whether the amount applied as an initial bonus. It might be capitalized or it might be expensed.

Q. Well, supposing it is aside from the payment of any initial bonus, a payment made in addition to that?

A. It would apply whether or not the terms of the contract and the terms of the lease specified certain amounts for certain things.

Q. Well, now, how would you treat, or, rather, in your accounting practice, how would you treat royalties that accrued in these oil and gas leases?

A. Royalties themselves where payment is made to the royalty owners, is a part of the actual expense of producing gas.

Q. In other words, they are all expensed?

A. Ordinarily, yes.

Q. Isn't it almost universally done in accounting practice?

A. I think so.

Q. What has been your position with reference to the treatment that should be accorded initial bonuses?

A. They are capitalized.

Q. Do you make any distinction between what may be termed a bonus or whatever payment may be made at the time a lease is contracted for or a contract made for the first lease that is labeled a bonus?

A. That is labeled first cost.

Q. You capitalize that?

A. Ordinarily it is capitalized.

Q. Now, if that lease by its terms expired at a certain time and there had been no well drilled on the property; the lease was renewed and some character of payment was made at the time the new lease was entered into, how would you treat that?

A. It would be capitalized.

Q. If that lease had a provision in it with reference to periodic payments to be made in order to hold the lease, how would you treat that?

A. Ordinarily that would be treated as an expense item under the heading of delay rentals.

Q. That is right. Then under what theory do you now say that—strike that.

That has been so treated particularly by the Amarillo Oil Company on its books?

A. That was treated by the Amarillo Oil Company as an expense item, that is correct.

Q. And the items that you have particularly in mind

under delay rentals as discussed on Page 15 of your written statement, are those that accrued during the years 1924 to 1927 with reference to Amarillo Oil Company, aren't they?

A. That is correct.

Q. And those rentals were expensed on the books of the Amarillo Oil Company?

A. That is right.

Q. Now, you single out particularly a certain lease, Bivins No. 30, that you referred to in your written statement on Page 15 as being indicative of a certain method of payment or the carrying out of certain obligations under that lease, don't you?

A. That is right.

Q. You use that as a basis for your treatment of these delay rentals?

A. That is correct. I singled out the largest individual lease there, Bivins 30.

Q. Referring to a $72,000 per year payment accruing under that lease?

A. That is right.

Q. You examined that lease instrument, I presume, Mr. Lusk?

A. Yes, I have examined that lease instrument and have also read the abstract.

Q. That was the lease entered into May 1, 1923 between Lee Bivins as lessor and Producers and Refiners Corporation as lessee?

A. That is right.

Q. And that is included in Exhibit No. 147 that has been identified in these proceedings?

A. I believe so, yes, sir.

Q. That lease provides among other matters, a bonus of $18,000 cash to be paid under the terms of the execution of the lease?

A. That is right.

Q. Then it has this one particularly applicable provision to your treatment of delay rental: "As additional or future consideration for this lease, the lessee expressly obligates itself to pay to the lessor, the Amarillo National Bank of Amarillo, Texas, a rental of $72,000 per year to be paid in quarterly instalments of $18,000 each for a period of five years from the date hereof; first of which is a cash

consideration hereinabove recited and the others are succeeding payments to be made quarterly in advance until the royalties earned and paid hereunder equal or exceed such amount. It is the purpose and intent hereof that the lessor is to receive a minimum of $72,000 per year during such five-year period either in rents or royalties, the rents to be absorbed in the royalties when the royalties exceed the sum stipulated as rentals."

You had that particular paragraph in mind when you recorded this treatment of delay rentals as described on Page 15 of your exhibit?

A. And in addition the clauses in that lease which particularly refer to the drilling obligations.

Q. Yes, I was coming to that fact.

This paragraph—that is to be considered first, and of course all paragraphs following are to be considered together?

A. That is correct.

Q. Now, it is true that lease does have provisions with reference to the driling obligation separate and apart from these rentals?

A. In the lease itself the articles or the paragraphs relative to the drilling obligations are separate.

Q. That is right. In other words, the drilling obligation paragraphs are not in any way connected with this paragraph on rental payments?

A. No, but part of the same lease.

Q. They are part of the same lease, that is true, but the matter of the drilling of the wells—whether any wells are to be drilled is not in any manner dependent upon this paragraph with reference to payment of that $72,000?

A. No, the $72,000 was a guaranteed minimum under the lease.

Q. That is a portion of the money necessary to hold the natural gas land and land rights for the purpose of obtaining a supply of gas in the future?

A. It could be considered that or it could be considered as a delay portion of the drilling.

Q. But as I say, isn't that construction of the provision of the Commission's Uniform System of Accounts as

to delay rentals the same that has been in effect in Pennsylvania, a reasonable one?

A. It all depends upon the interpretation placed upon the particular paragraphs in the Pennsylvania Code or the new Federal Power Commission Code. Delay rentals by whatever name known are payments made in lieu of drilling. That is the universally accepted interpretation.

Q. That is the way you view it, and in the light of that interpretation you say that this payment, for instance, that is made under the Bivins lease was erroneously treated by the Amarillo Oil Company on its books?

A. I don't say it was erroneously treated. My position is that the Amarillo Oil Company could have perfectly well capitalized all of those delay rentals.

Q. It was not an error on their part, but you say they could have done it?

A. They could have capitalized all of those rentals.

Q. But in fact they treated them as expense items?

A. They treated them as expense, that is correct.

Q. They so remained on their books for the entire period and never were changed?

A. That is correct, they have never been changed.

Q. You, however, at this time in the light of your interpretation of what is considered by the term "delay rentals" believe for that reason and others that you may reclassify those items?

A. I classify those and reaccount for them on the premise that the particular Bivins Lease No. 30 contained a minimum gaurantee clause and also drilling obligations.

Q. That is true, but the drilling obligation was separate and apart from this provision as to the rentals?

A. That is correct.

Q. And the lease itself provides this particular payment of $72,000 to be made quarterly as a rental?

A. That is what the lease says and that is what they did —that is the way they were handled on the books of the Amarillo Oil Company.

Q. Now, how were these items handled in connection with the income tax reports made by the company?

A. As expense.

Q. As expense?

A. Yes.

Q. Now, I see you accord the same treatment with reference to these delay rentals on those paid in connection with unoperated leaseholds?

A. That is correct. When I established the principle of replacing or restoring all of the delay rentals as part of the Amarillo Oil Company's cost, I did not stop with the Bivins Lease No. 30 or the Masterson No. 31. I carried it all through and applied all the delay rentals ad restored all of the delay rentals from 1924 to 1927.

Q. And that gives you the total of those two as reflected on Statement 1 of your exhibit of $488,018.45?

A. That is correct, yes, sir.

Q. Line 8?

A. That's right.

Q. Column 5, and also reflected in Column 6.

A. That's right.

Q. Of Statement 1, and your statement, of course, does not show anything on Column 4 with reference to those items. Of course, they weren't so treated on the books of Amarillo Oil Company.

A. They were not treated as capital items on the books of Amarillo Oil Company, that's correct.

Q. Now, this treatment of delay rentals reflected by you in your Exhibit 194 is set forth in Mr. Luttring's reconciliation computation on Sheet 2, Line 18, isn't it?

A. Line 18, that's right.

Q. He gives a breakdown there for the years 1924, 1925, 1926 and 1927. Now, I believe on Statement 22 of your Exhibit 194 you set forth these delay rentals?

A. Not on Statement 22. Statement 22 is the general administrative costs.

Q. Look at Line 5.

A. That's under the heading of Operating Expense.

Q. But what I wanted to call your attention to is the last year. You capitalized delay rentals for the years 1924, 1925, 1926 and 1927, didn't you?

A. That's correct, yes, sir.

Q. And that included the entire year 1927, didn't it?

A. That included all of the year 1927, the lease rentals that were set up by the Amarillo Oil Company—yes, that's right.

Q. Well, this transfer of property—

Mr. Spencer: May I ask a question right there, Mr. Lange?

Mr. Lange: Go ahead.

Mr. Spencer: For the year 1927, Mr. Lusk, I assume from this Statement No. 22 the amounts shown in Column 8 of $135,606.23 was paid by Amarillo Oil Company during that year?

The Witness: That is correct.

Mr. Spencer: Do you know offhand whether it was paid in its entirety prior to May 1, 1927?

The Witness: The records that I have here for lease rentals in 1927 begins with Voucher A which is January, and winds up with Voucher N1 which is December.

Mr. Spencer: Then those payments were made throughout the year by Amarillo Oil Company?

The Witness: That's correct.

By Mr. Lange:

Q. Well, you included the entire amount of delay rentals set up on Amarillo Oil Company's books for the year 1927, didn't you, in your capitalization of these items?

A. That's right.

Q. Wasn't the transfer of the properties made in May of 1927?

A. May 1928.

Q. May 1st, 1927—

A. Well, that was the date of the agreement. The physical transfer was made in May 1928.

Q. Well, weren't prepaid rentals included in the transfer of those properties?

A. Not in the initial transfer, no, sir.

Q. Not for the year 1927 or any part of that?

A. There were some delay rentals paid by the Amarillo Oil Company for the account of the Canadian River Gas Company, but as far as I know there were none of these that are duplicated in that particular setup of the delay rentals paid for the account of Canadian River Gas Com-

pany. If they were paid for the account of the Canadian River Gas Company, they wouldn't get into the expense of the Amarillo Oil Company. They would be set up as receivables.

Q. So in your opinion there is no duplication there at all?

A. Not that I know of.

Q. Now, going back to your Statement 1 of Exhibit 194, Line 8, delay rentals, total of $488,018.45, as I understand it, that—or, rather, can you give me the figures for each of the years that make up that total?

A. Yes, sir.

Q. Turning to—we might turn to Sheet 2 of Mr. Luttring's reconciliation under Line 18. Does that give the totals for each of the years?

A. That's right. I think Mr. Luttring got those figures from me, year by year.

Q. That, then, ties in with your total of $488,018.45?

A. Yes. There is a difference of $40. My working detail shows $488,058.45.

Q. Now, the Statement 22 in your Exhibit 194, shows rentals on leases for the year 1927, Line 5, $135,606.23.

A. That's right.

Q. Now, there is a voucher H 12-8, 1928, in the sum of $19,250.89.

A. That's right.

Q. Isn't that item—and that item is deducted from the total that reconciles the figures to give you the $488,058.45?

A. That's right.

Q. Now, there aren't any delay rentals included in your discussion as set forth on Page 15 other than those appearing on the books of Amarillo Oil Company for the years 1924 through 1927?

A. 1924, Mr. Lange.

The Witness: No. The Panhandle Pipe Line Company—sales were made to the Panhandle Pipe Line Company somewhere in the latter part of 1920.

Mr. Lange: Yes, I was coming to that, Mr. Examiner.

Mr. Spencer: I think we either have in the record an exhibit, or it was read into the record, more detail on those sales. I think Mr. Luttring put those in.

Mr. Lange: Yes. Mr. Luttring at that time identified an instrument, Mr. Spencer, that I believe copies had not been furnished. It is Exhibit 160 that you requested him to identify. I have the extra copies of that here and I also have another instrument that either Mr. Lusk or Mr. Luttring could identify on that same subject which has a relationship to that.

Q. I believe yesterday mention was made, or, rather, reference was made to your written statement at Page 9 where you in turn referred to what was known as the Hapgood well that was completed about December 15, 1918.

A. That's right.

Q. Isn't that the well that was named in the agreement that contemplated the original and first delivery of natural gas for the City of Amarillo's market? I think we identified that yesterday.

A. Yes, that's correct.

Q. As being the one named in the contract, Exhibit 16, Page 132 and Page 133.

A. I think that's corect, yes, sir.

Q. And the deliveries of gas that were made for distribution in the City of Amarillo, do you know the nature of the operations that were carried on from 1918 that the Examiner just had reference to?

A. Well, the operations carried on from 1918 from the time that the discovery well was drilled in, I have a list of the well numbers and the dates that gas first was drawn from those particular wells.

Q. Do you have those there?

A. Yes.

Q. You might read those in the record.

A. It is also in Mr. Luttring's Exhibit 146, the date of the first market—

Q. Does your list include the same wells?

A. The same wells, yes, sir.

Mr. Spencer: It is quite a long list.

By Mr. Lange:

Q. That is the list set forth in Mr. Luttring's Exhibit 146 at Page—

A. I think it is Page 71 or thereabouts.

Q. Page 80?

A. Page 80.

Q. Page 80 of Exhibit 146.

A. Yes:

Q. Now, does that list coincide with yours, Mr. Lusk?

A. I believe so. I have checked Mr. Luttring's exhibit on Page 80, the date of the first market, all through Page 81 and Page 82.

Q. Now, this contract of December 7, 1918, between Amarillo Oil Company and Perry A. Little, you know of that, don't you, that that contemplated the construction of a pipe line to deliver gas to the city of Amarillo?

A. That's right. Messrs. Little and Driscoll built the line from the field into the Amarillo gate.

Q. And at that time the gas was taken at the gate and distributed in the city of Amarillo by the Amarillo Gas Company?

A. I believe that's right.

Mr. Spencer: Not at that time.

Mr. Lange: When this line was completed.

Mr. Spencer: Well ask him when it was.

By Mr. Lange:

Q. When was that, Mr. Lusk?

A. Well, that line was completed sometime in 1920 or 1921.

Q. Yes, and that contract, as Exhibit 16 shows, was later taken over by other parties, that is, Albert R. Jones, E. W. Goebel, and Frank E. Jones, administrator, as set forth in Exhibit 16, Page 141—no, I will correct that. At that time these three parties, Albert R. Jones, E. W. Goebel, and Frank E. Jones, administrator, acquired an undivided half interest in Amarillo Oil Company and half interest in that contract of December 7, 1918.

Mr. Spencer: By that statement "acquired half interest in the Amarillo Oil Company," you mean half interest in its leases and properties in the field as of that time?

Mr. Lange: Well, I was just reading the provision as it is recited in the contract on Page 141, Mr. Spencer. It reads like this—of Exhibit 16:

"Whereas, the undersigned, Albert R. Jones, F. W. Goebel, and Frank E. Jones, administrator, have acquired and claimed an undivided one-half interest of the interest of the Amarillo Oil Company in and to said contract," referring to the contract of December 7, 1918. It begins at Page 132 of the same exhibit.

Mr. Spencer: I think that is true.

Mr. Lange: I believe at this time, Mr. Examiner, we desire to distribute copies of that Exhibit 160 that had been identified by Mr. Luttring while he was on the stand.

The Trial Examiner: Do you have copies available?

Mr. Lange: Available for distribution, yes.

Since the copies are now distributed, the Exhibit 160 is again offered in evidence and given to the reporter at this time.

The Trial Examiner: Do you recall, Mr. Lange, was that your exhibit?

Mr. Lange: No, this is how it came about, as I recall it, Mr. Examiner: Mr. Luttring was on the stand and Mr. Spencer asked Mr. Luttring whether he could locate that particular instrument and Mr. Luttring later produced it but so far as I recall it had not been received in evidence.

The Trial Examiner: No, it has not been received.

Mr. Spencer: I don't believe that I offered it.

Mr. Lange: No.

Mr. Spencer: Now, if you would like to offer it, it will be satisfactory to me. I would not desire to offer it until there has been some action upon Mr. Luttring's Exhibit 146.

Mr. Lange: Well, if it does tie in definitely with that, why, of course, the action with reference to the offer may be deferred, but we want it indicated that at that time we will request the admission of it.

The Trial Examiner: Very well.

Mr. Spencer: I will say further, Mr. Lange, that if Exhibit 146 is admitted, I think this one should be, too.

Mr. Lange: Now, in connection again with the transfer of the properties to the Amarillo Oil Company in 1924 there was a memorandum executed on April 30, 1924 between Perry A. Little and others—Producers and Refiners Corporation, Mission Oil Company, Panhandle Pipe Line Company, Mountain States Gas Company, Prairie Oil and Gas Company, and as I say it bears date of April 30, 1924. It has some relation to this exhibit and we desire at this time to offer it. We have copies of it.

The Trial Examiner: That has not been marked for identification yet.

Mr. Lange: No, not yet. It is entitled "Memorandum," as far as the heading of it is concerned. It was executed by those several parties and has attached to it a schedule of certain properties.

The Trial Examiner: I think you have adequately described it. It will be marked for identification as Exhibit No. 234.

(Exhibit 234, Witness Luttring, marked for identification.)

Mr. Lange: And that offer may also be deferred until Exhibit 146 is acted upon?

The Trial Examiner: Very well, Mr. Lange.

By Mr. Lange:

Q. Now, Mr. Lusk, turning again to your Exhibit No. 194, Page 16 of your written statement under General and Administrative Costs, your treatment of these items as costs differ from the treatment accorded them on the books of the predecessor company?

A. That is correct, neither of the predecessor companies capitalized any of their general administrative expense.

Q. What is the basis of your treatment of the items?

A. The basis for the treatment, or the premise I established in adding back administrative cost was that the Amarillo Oil Company from the date it was first incorporated up to the latter part of 1920 enjoyed no revenue or any return on its investment. The same is true of A. R. Jones interests and the same was true of a small portion of the time by Mission Oil Company.

Q. Well, don't you think Mr. Iliff knew about that situation pretty well when he made his audit of the company's books?

A. He may have.

Q. Well, aren't you reasonably certain he had those facts available to him?

A. No, I don't think he had. He probably had the facts available and they were made available to him, but I don't think he considered that particular feature of it.

Q. Why not?

A. That the Jones interests and the earlier Amarillo Oil Company did not enjoy any return for several years on the amount of property and money they had invested in the Amarillo field.

Q. Well, Mr. Jones and his associates probably—not only probably, but very definitely knew what the character of the audit work was that Mr. Iliff was doing.

A. They apparently did because Mr. Iliff worked for Mr. Jones.

Q. Mr. Jones was a pretty practical and well-informed executive, wasn't he?

A. Yes, Mr. Jones is an able business man.

Q. Particularly A. R. Jones?

A. He still is.

Q. Don't you think he took the time to confer with Mr. Iliff at that time and knew exactly what treatment Mr. Iliff was according the various items?

A. He probably did. He probably knew all about it.

Q. Even at that time Mr. Jones had been pretty experienced in the industry, hadn't he?

A. Yes.

Q. He knew the practices?

A. From the field angle. I don't know about his knowledge of the practices of bookkeeping.

Q. Where he didn't know he had pretty good advice, didn't he?

A. I think he did.

Q. He made no objection at that time to Mr. Iliff's treatment, did he?

A. Not that I know of.

Q. He made no objection, at that time to Mr. Iliff's treatment of any of the items in the audit?

A. Not that I know of, no, sir.

Q. And nobody else did at any subsequent date that you know of?

A. Not that I know of, no, sir.

Q. And they remained on the Amarillo Oil Company's books as Mr. Iliff's audit disclosed them?

A. That is up to January 16, 1923.

Q. Now, your treatment with reference to these general administrative costs is predicated primarily, as you state, on the fact that Amarillo Oil Company during a certain period had no income?

A. That is right, Amarillo Oil Company and the Jones interests and Producers and Refiners Corporation and the Mountain States—the last two never enjoyed any revenue from their property.

Q. Referring to Mountain States, didn't Mountain States capitalize some portion of administrative cost on their books?

A. Yes, they capitalized a small portion, yes, sir.

Q. I think you set that out on Statement 22, didn't you, the amount of some twenty thousand dollars?

A. Yes, sir.

Q. It is $20,518.61, Column 9, Statement 22, Exhibit 194?

A. That is right.

Q. Well, have you given any credit to that portion of it?

A. I considered under Statement 22 an overall compilation and arrived, for the purposes of Exhibit 194, at 4 per cent.

Q. Now, weren't there some other administrative and general items—

Mr. Spencer: I don't think he answered your other question directly as to whether or not you had given any credit in his computation for the $20,518.61?

The Witness: I think my answer was, Mr. Spencer, that I considered it for the purposes of Statement 22, Exhibit 194—I considered all of it as a whole and arrived at an overall 4 per cent which I applied to the property.

Mr. Spencer: I see.

By Mr. Lange:

Q. Where do you arrive at that figure of 4 per cent?

A. Well, on Statement 22, Column 12, the total excluding periods of lowest construction which is Column 3 and Column 5 where the percentages are 27.36 and 28.77, respectively, I eliminated those in the computation under Column 12.

Q. And applied 4 per cent to that total?

A. I applied 4 per cent to the total.

Q. Now, again, with reference to the treatment of general administrative costs, how were they treated in connection with the income tax returns of the company?

A. They were expensed.

Q. And there are some other items that I want to know whether you gave consideration to or credit for on your total of general administrative costs. Weren't there some expensed in 1923 and 1924? Wasn't there the amount expensed of $11,435.95 for Mountain States in the year 1923?

A. Yes, there was a portion of the Mountain States which was spread to the leases.

Q. And how much was that?

A. It was approximately—the amount of overhead that was prorated on the Mountain States was $20,518.61. That is the amount for Producers and Refiners—I beg your pardon. That isn't Mountain States.

From my records here the only Mountain States overhead I know of is on Statement 22, $5,991.54.

Q. Weren't there two items of administrative general expense charged to well investment in 1923, a total of $11,435.99?

A. By the Mountain States?

Q. Yes, and in 1924 of $8,687.18.

A. I don't see any in my working detail. Under what heading is that, Mr. Lange?

Q. Administrative and general charged to well investment.

A. Not that I know of.

Q. The only one you have is the one of $20,518.81?

A. That is Producers and Refiners. That is not Mountain States.

Q. Do you have anything on Mountain States?

A. Only this $5,954 I show on Statement 2.

Q. With reference to the treatment accorded these items on the predecessor companies' books, they were consistently

treated by them all the way through, weren't they? They were pretty consistent in their treatment of the items, both the general administrative expense as well as the delay rentals?

A. That is quite right, yes, sir.

Q. And A. R. Jones and his associates, as I stated before, were men that were pretty well conversant with the practices of the oil and gas industry?

A. I believe they were, yes.

Q. Among the pioneers, weren't they?

A. Jones was a "wildcat" driller in the Amarillo field.

Q. He graduated from that class pretty soon, didn't he?

A. Yes, after he discovered gas.

Q. He was a pretty practical man in his operations and dealings and connections with problems affecting oil and gas?

A. Not only that, but he still is, and I believe he was then extremely tax conscious.

Q. You don't think he would have had a man like Mr. Iliff examine the company's books and set up records unless he had quite a bit of confidence in him?

A. I don't think Mr. Jones is the type of man who would employ a man he didn't have confidence in.

The Trial Examiner: By the way, Mr. Lusk, your study of the work done by Mr. Iliff, does that indicate to you he was endeavoring to set up the books in conformity with any particular code of accounts or was he merely setting them up as he conceived they should be?

The Witness: I think Mr. Iliff set the combination of the Amarillo Oil Company and the Mission Oil Company up according to his own ideas. They weren't following any code in the Amarillo Oil Company.

The Trial Examiner: The Amarillo Oil Company didn't follow the Pennsylvania Code?

The Witness: No, sir.

By Mr. Lange:

Q. As far as you know, Mr Iliff had the approval of Mr. A. R. Jones and his associates in all he did in connection with this accounting work?

A. I believe he did, yes, sir.

Q. Now, these general administrative costs as discussed by you on Page 16 of your written statement, Exhibit 194, are also set forth in the reconciliation statement prepared by Mr. Luttring, Line 19, Sheet 2 of 3?

A. That is correct, yes, sir.

Q. Now going back for just one more question with reference to the manner in which these general administrative costs were treated, didn't Mr. Jones and his associates capitalize practically all items with reference to that excepting possibly a portion of salaries?

A. Yes, Mr. Jones in the Mission Oil Company capitalized all of their expenditures in connection with the exploitation of the Amarillo oil field.

Mr. Spencer: By that you mean direct expense?

The Witness: Direct expense, yes, sir.

By Mr. Lange:

Q. This total as set forth on Mr. Luttring's reconciliation statement, Sheet 2 of 3, has been prepared by you, hasn't it?

A. Yes, sir.

Q. That amount set forth in your Statement 1 of the exhibit, Columns 5 and 6, is $68,597.09, is that right?

A. That is right.

Q. Now, that, as I take it, is an amount which you arrived at by applying 4 per cent to $1,714,927.35 as appearing in Column 6, Statement 1?

A. That is correct. That is a flat 4 per cent of the amount you have just read.

Q. And where do you find a basis for arriving at 4 per cent?

A. In Statement 22.

Q. Oh, yes, you explained that a while ago.

That is Statement 22, Exhibit 194?

A. That is correct.

Q. Now turn to Page 17 of your exhibit where you treat the matter of interest cost. Basically what is your reason for capitalizing that particular item and including it in your Statement 1, $34,298.55?

A. The premise I adopted with reference to general and administrative expense applies also to interest cost. Reading from Page 17, it states: "Amarillo's investment was idle from April 1917 to October 1920, the date gas was first delivered at the well to Panhandle Pipe Line Company. The Jones interests had an idle investment and Producers and Refiners Corporation and Mountain States Gas Company was without revenue or return in any form from May 1, 1923 to August 1, 1924."

Q. I note on Page 17 of the written statement you state: "Amarillo's investment was idle from April 1917 to October 1920, the date gas was first delivered at the well to Panhandle Pipe Line Company." The date has reference to 1920, doesn't it?

A. That is correct, yes, sir.

Q. That is the gas that was delivered the well to the Panhandle Pipe Line Company for sale at the city gate of Amarillo?

A. That is correct.

Q. And for distribution in the city of Amarillo?

A. I believe it was, yes, sir.

Q. Now, what do you have reference to during the period November 1918 to October 1920 concerning the Jones interests justifying the exclusion of any interest cost?

A. As I state on Page 17, Exhibit 194: "The Jones interests had an idle investment from November 1918," that was the date they entered into the contract with the Amarillo Oil Company. " * * * to October 1920." The date gas was first delivered at the well to the Panhandle Pipe Line Company. Jones had a half interest in the Amarillo Oil Company leases and wells and naturally they participated in any sale of gas.

Q. During that period of time, as reflected by the company's books, hadn't they covered any possible interest expenditures that may have been accruing for that period, or, rather, expensed any items during that period at all?

A. In neither the Amarillo Oil Company or the Jones interests or the Mission Oil Company did I see any interest items with the exception of a small amount, an amount of a few hundred dollars.

Q. Why was that?

A. On the A. R. Jones account, interest and discount

earned—that wasn't an expense—an amount of $1,568.10, but there was no charge for interest as such against any of the expenditures made by either A. R. Jones and Associates or the Mission Oil Company.

Q. Well, now, does this item include any legal fees, or did you give that any consideration at all?

A. General legal fees would be under general expense, and it wouldn't have anything to do with interest.

Q. Did you in connection with general administrative expense give any consideration to legal fees that had been paid?

A. Yes, I think the 4 per cent is sufficiently ample to cover any legal expenses that may have been incurred, because when the Mission Oil Company was formed in 1922 there was quite an appreciable sum charged to legal expense.

Q. That was in the year 1922?

A. Yes, sir.

Q. Do you know what that total was?

A. Approximately $8,000.

Q. Now going back again to the treatment of the interest capitalized, how do you arrive at this 2 per cent rate that you apply?

A. The Amarillo Oil Company from April 1917 to January 15, 1923 stated an amount of interest which I capitalized for the purposes of obtaining a rate of $6,935 against expenditures for property and operating expenses of $158,-487. That covered the entire period from April 1917 to January 15, 1923. That ratio was 4.375 per cent. I did the same thing with A. R. Jones and Associates and the Mission Oil Company and I found an overall ratio of 5.7 per cent. The Jones and Mission companies combined would approximate five per cent.

The total expenditures by the Mission Oil Company approximated 2.35 per cent and I used 2 per cent all the way through.

Q. And applied that in computing interest cost as set forth on Statement 1, Exhibit 194?

A. That is right, I applied a flat 2 per cent rate against the property shown on Statement 1, the total of Line 7, $1,714,000.

Q. Similarly your computation there applies the 2 per

cent to the total of $1,714,827.35 appearing in Column 6, Statement 1 of the exhibit?

A. That is correct.

Q. Turning to Mr. Luttring's reconciliation statement, Sheet 2 of 3, Line 20, that same total of $34,298.55 appears there, doesn't it?

A. That is correct, Mr. Luttring eliminates it from his Exhibit 146. In this reconciliation Mr. Luttring does not reaccount.

Q. Now, your approach to all of these questions in your Exhibit 194, Mr. Lusk, are, of course, on the various bases you gave in your testimony; that is why you justify reclassifying these items at this time?

A. That is right. I think the testimony is clear on these disputed points.

Q. In other words, it really amounts to a reaccounting in connection with those items, doesn't it?

A. That is correct.

Mr. Spencer: You are speaking of interest costs only, or general administrative expense, too, Mr. Lange?

Mr. Lange: Yes, general administrative as well as interest cost and all of the items, particularly those set forth in Statement 1, items 8, 9 and 10, delay rentals, general and administrative and interest cost.

The Witness: That is the reaccounting, yes.

By Mr. Lange:

Q. And you say you are justified in doing that, although these predecessor companies have not pursued that course heretofore?

A. That is quite right.

Mr. Lange: I believe at this time, Mr. Examiner, we desire to offer this reconciliation statement prepared by Mr. Luttring. I think it would clearly set forth the differences in the two exhibits.

The Trial Examiner: What is the exhibit entitled, Mr. Lange?

Mr. Lange: "Canadian River Gas Company, Comparison of Cost to Predecessor Companies of Assets Acquired

by Canadian River Gas Company from Amarillo Oil Company as of May 1, 1927, as shown by Commission's Exhibit No. 146 and Respondent's Exhibit No. 194."

The Trial Examiner: It will be marked for identification as Exhibit No. 235.

(Exhibit 235, Witness Luttring, marked for identification.)

Mr. Lange: I believe that is all for the present time, Mr. Examiner.

Mr. Spencer: I shall have a few questions on redirect, but I would suggest a short recess before I commence that, Mr. Examiner.

The Trial Examiner: Very well, Mr. Spencer, we will stand in recess for five minutes.

(At this point a short recess was taken, after which proceedings were resumed as follows):

The Trial Examiner: The hearing will be in order.

Redirect Examination.

By Mr. Spencer:

Q. Well, Mr. Lusk, in answer to one of Mr. Lange's questions I believe it was indicated or implied that the Amarillo Oil Company received \$3 per acre for certain leasehold interests that were assigned to Hapgood in 1918. Do you recall that?

A. Yes, sir.

Q. Now, did Mr. Hapgood in fact pay any sum per acre in cash for the assignment of the leasehold interests he received?

A. To my knowledge, no. There was no cash passed in that transaction.

Q. And what was the consideration for the assignment of the leasehold interests by Amarillo Oil Company to Hapgood?

A. At the time of the contract between the Amarillo Oil Company and Hapgood it was agreed that as a part consileration for drilling the discovery well which is the Hapgood well, that Hapgood was to retain and receive for himself 2-¾ sections of land.

Q. Then what does the $3 per acre represent that appears on the books of the Amarillo Oil Company at that time?

A. That $3 per acre represents the average price of acreage that the Amarillo Oil Company had established for the purposes of making that assignment.

Q. On Page 12 of your Exhibit 194 you refer to two combination wells, one of which was located on the Warrick lease and the other on the Bivins 18 lease, I believe. By "combination wells," you mean wells that are capable of producing both oil and gas?

A. That is correct.

Q. Do you know how long after the transfer of these particular properties to the Canadian River Gas Company that these two wells continued to be capable of producing oil?

A. At the time of the physical transfer from Amarillo Oil Company to Canadian River Gas Company, those two combination wells were transferred as combination wells and shortly thereafter the Canadian River Gas Company plugged back to the gas producing sand those two wells and since then they have been flush gas producing wells.

Q. And since then I take it the wells have ceased to produce any oil?

A. They—when they were plugged back, why, that shut off the oil sand.

Q. Now, Mr. Lange also asked you to state your reasons for capitalizing the so-called Bivins 2 well which resulted in a dry hole. Do you recall that?

A. Yes, sir.

Q. I wish you would tell me again why you considered that this well was an exploratory well which should have been capitalized.

A. Well, from my knowledge of going through some of the old correspondence with reference to that particular dry hole, as I mentioned yesterday in response to Mr. Lange's question, that was part of the development program—that particular well. Now, I could go a little further and say that to the best of my knowledge and belief that particular well was an exploratory well and it served to bring in the entire structure around that part of the Bivins acreage. In other words, the company learned more through

the drilling of that dry hole than they had knowledge of previously.

Q. Now, you are familiar with the contract between A. R. Jones and Associates and the Amarillo Oil Company covering the drilling of five exploratory wells?

A. Yes, sir.

Q. Now, what distinction would you make as between those five wells and the Bivins C-2 which resulted in a dry hole?

A. Well, I think that the five exploratory wells and the Bivins C-2 well could be placed in the same category. They are all exploratory wells.

Q. Well, there is a difference in the arrangement for payment of cost of the two classes of wells.

A. That's correct.

Q. What was that?

A. In the initial Jones-Amarillo agreement it was a half-interest proposition.

Q. Well, but who paid for the cost of the five wells that Jones drilled?

A. Jones paid all of the cost of drilling.

Q. And who paid the cost of the dry hole, the Bivins C-2?

A. That was a joint proposition.

Q. Between whom?

A. Between the Amarillo Oil Company and A. R. Jones.

Q. Is that the only distinction you can see between the two classes of wells drilled at that time?

A. Well, that would be the distinction between those classes of wells, yes, sir.

Q. Now turn to Page 15 of your written statement which has to do with delay rentals. Now, in speaking about the Bivins No. 30 lease which you have used as an example for the purpose of illustrating what you have done in the last sentence you state as follows:

"This entire amount is restored as a lease cost on the premise that payments of this nature during the development periods are properly capital."

Is that correct?

A. That is correct.

Q. Now, let me ask you this: In your experience of oil

and gas leases, would you say that a lease required payment of any so-called delay rental after a producing well had been drilled and commenced producing?

A. That would be very rare.

Q. Now, treating the Bivins No. 30 lease specifically, would it have made any difference how many wells were drilled on the Bivins No. 30 lease if no gas was produced from those wells in so far as it concerned this particular payment which was required each year?

A. Well, under the terms of that particular lease, any number of wells could have been drilled without gas producing, but the $72,000 minimum guarantee payment would hold just the same.

Q. No matter how many wells might have been drilled?

A. That's correct. If there wasn't any outlet for the gas under that lease, the $72,000 minimum guarantee payment would go on just the same.

Recross Examination.

By Mr. Lange:

Q. Mr. Lusk referring to that Bivins dry hole you said that as a result of the drilling of that the company learned a great deal about the particular formations in the field that they did not know before.

A. That was my understanding, yes, sir.

Q. Of course, you just heard that from hearsay. You aren't informed as far as the geology is concerned?

A. Oh, no, I don't want to convey that impression, no, sir.

Q. As far as that is concerned, then that is just purely hearsay. You don't know what they learned or what they did not learn?

A. No. From the records of the Amarillo Oil Company and from my own conversations with Mr. A. R. Ford—of course, he was down there since the discovery well and Mr. Ford who is now General Superintendent knows that field well, and what certain wells did and what certain wells did not do and what they learned from the drilling of wells and what they learned from the drilling of dry holes.

Q. And, of course, they probably learn something every time they drill a well that they didn't know before with reference to the field, don't they?

A. That is undoubtedly true.

Q. Now, with reference to these two wells, the Bivins B-3 and Warrick A-1, the oil rights under those wells were transferred to Parcomis, weren't they?

A. That's correct.

Q. As well as the oil equipment?

A. No, sir.

Q. Did you have any tanks?

A. Not that I know of. There might have been a few sludgetanks or run-off tanks that were sold, but I don't think the Parcomis acquired any physical property. In fact, I know they didn't.

Q. Just acquired the oil rights?

A. Just acquired the oil rights and those two wells now have been plugged back and they are producing from the gas horizon whereas heretofore they were producing from the oil horizon.

Q. They did produce oil as late as 1931, didn't they?

A. One of them did, yes.

Q. Which one was that?

A. I think that was the Warrick well. I am not sure which one. There were two wells.

Q. And the Bivins well was the one plugged back later, about 1933, is that what your records show?

A. No, I think several months later, after they acquired it.

Mr. Spencer: Not that late.

The Witness: The Bivins B-3 started to produce large quantities of gas in 1929 and so did the Warrick. The Bivins B-3 in 1929 produced 1,621,543 Mcf.

By Mr. Lange:

Q. And the Warrick?

A. And the Warrick produced 92,446 M.

Q. What is the first year of that big production of gas?

A. 1929.

Q. Both of them?

A. Yes, sir.

I don't have any record of gas production for either of those wells prior to 1929.

Q. Do you have any record of oil produced from those wells prior to that?

A. No, I don't have it here, Mr. Lange, but I do have a record over at the office as to the oil production from those two wells.

Q. Mr. Lusk, then if the minutes of Parcomis Oil and Gas Company as of June 26, 1933 show that the agreement dated May 1, 1933 between Canadian River Gas Company and Parcomis Oil and Gas Company providing for the plugging back of Bivins B-3 well by Canadian River Gas Company—if those are the minutes, wouldn't that very definitely indicate that that well was plugged back at that time, May 1, 1933, or thereabouts?

A. Well, I don't know: I haven't seen those minutes, but from my records here the Bivins B-3 was a very large gas producer in 1929, according to the metered production records.

Q. You just stated, though, that you didn't know what the production of oil was at that time or prior?

A. No, I don't. I have a record of the oil runs—not here with me, but I do have a record of the oil runs.

Q. Will you make a note of that and when you get those figures, then, you may—

Mr. Spencer: We can check those plugging dates for you.

By Mr. Lange:

Q. Will you check the dates shown in the extract of the Parcomis minutes?

A. Are those minutes—do they state the Bivins B-3 well?

Q. Yes, B-3. It says as of June 26, 1933.

There was introduced in evidence Exhibit 234, being a contract or memorandum executed on April 30, 1924, between Perry A. Little, and others, which Exhibit 234 is as follows:

Memorandum.

Whereas, Perry A. Little and T. J. Driscoll own or control approximately ninety percent of the stock of the Amarillo Gas Company, which owns gas distributing property in the city of Amarillo, Texas, and

Whereas, the Panhandle Pipe Line Company, of which Little and Driscoll own or control ninety percent of the stock, owns a pipe line system from the Amarillo gas field to the city of Amarillo, and

Whereas, The Mission Oil Company owns a majority of the stock of the Amarillo Oil Company, which company owns a large acreage under oil and gas leases in the Amarillo gas field and also a pipe line from said field to a smelter plant in the vicinity of Amarillo and

Whereas, the Producers and Refiners Corporation also owns a large acreage under oil and gas leases in the Amarillo gas field, its gas rights, however, having been conditionally assigned to the Mountain States Gas Company, and

Whereas, The Mountain States Gas Company owns certain rights under oil and gas leases in the Amarillo field, and

Whereas, it is desired by all parties hereto to avoid needless waste of gas, to conserve the supply thereof and achieve economies as far as possible in the development and distribution thereof and to make it possible for the Amarillo Oil Company or the company that may be organized to make attractive rates for gas, so as to attract large industries to Amarillo:

Now, Therefore it is proposed by all the parties hereto as follows:

1st: The Mission Oil Company will, within fifteen days, undertake to secure the entire control of the stock and assets of the Amarillo Oil Company so as to be in a position, if necessary, to assign all of said stock to a company to be organized, in which company The Mission Oil Company is to receive forty-nine percent of the stock and the Mountain States Gas Company is to receive fifty-one percent of the stock; or in case it seems best for the Amarillo Oil Company to continue as the company owning and operating all the properties The Mission Oil Company will deliver to the Mountain States Gas Company fifty-one percent of the stock of the Amarillo Oil Company after capital is increased as may be advisable.

2nd: Little and Driscoll undertake, within fifteen days,

to secure control of all the stock of the Amarillo Gas Company and assign same to the Amarillo Oil Company or to a company to be organized as contemplated herein.

3rd. Little and Driscoll will undertake and agree that the Panhandle Pipe Line Company, ninety percent of the stock of which is owned or controlled by Little and Driscoll, will assign all its stock to the Amarillo Oil Company or to a company to be organized or agreed upon as contemplated herein.

4th: The Producers and Refiners Corporation will assign all its oil and gas leases, together with wells, equipment, etc., and rights thereunder, in what is known as the Amarillo gas field, to the Amarillo Oil Company or to a company to be organized as contemplated herein.

5th: The Mountain States Gas Company will assign all its rights under oil and gas leases in the Amarillo gas field to the Amarillo Oil Company or to a company to be organized as contemplated herein.

6th: The Amarillo Oil Company, or such other company as may be organized to receive the aforementioned properties, will issue bonds to the amount of Three Million Four Hundred Thousand Dollars, ($3,400,000.00), which bonds shall be six percent, first mortgage fifteen year sinking fund gold bonds, sinking fund to become operative and applied on retirement of bonds beginning five years from date, sinking fund to then be five percent of the balance then due each six months with accrued interest, interest to be paid semi-annually, and all or any part to be retirable at any date at par with accrued interest. These bonds are to be issued as follows:

7th: Little and Driscoll, in full consideration for the assignment of all of the stock and assets of the Amarillo Gas Company and Panhandle Pipe Line Company, are to receive said bonds in the sum of Two Million Dollars ($2,000,000.00), less amount of bonds and obligations of said companies that may be outstanding and unpaid.

8th: The M[illegible]ion Oil Company is to receive said bonds in the sum of One Million Four Hundred Thousand Dollars ($1,400,000.00), less any amount by which the bonded indebtedness or outstanding obligations of the Amarillo Oil

Company exceeds Four Hundred Thousand Dollars ($400,000.00); the delivery of said bonds to The Mission Oil Company to be in consideration of the procurement and delivery of all the present stock and assets of the Amarillo Oil Company to a new company, if and when organized as contemplated herein, or fifty-one percent of the stock of the Amarillo Oil Company with increased capital, if the latter company should be decided upon as the company to receive the various properties as herein provided.

9th: The Prairie Oil and Gas Company, by reason of its ownership of the majority of the stock of Producers and Refiners Corporation, agrees to purchase the said One Million Four Hundred Thousand Dollars ($1,400,000.00) of bonds to be issued to The Mission Oil Company, and pay therefore One Million One Hundred Sixty-six Thousand Six Hundred and Sixty-seven Dollars ($1,166,667.00) in cash, or will purchase any part of said bonds at the same ratio.

10th: If it is decided that the transfers of the several properties are to be to the Amarillo Oil Company, then it is understood that the capital stock thereof shall be increased so as to approximately represent the value of its property and fifty-one percent of the entire stock is to be issued to the Mountain States Gas Company and the remaining forty-nine percent is to be issued to The Mission Oil Company; or, if a new company is organized, the stock of such new company shall be issued to the Mountain States Gas Company and The Mission Oil Company in the proportion above provided for.

All parties hereto agree to use their best efforts and reasonable diligence to carry out and complete this agreement, and as the consideration is the mutual agreement of each of the parties to all and to each other, then the failure of one will make this agreement void and inoperative.

All property herein mentioned to be transferred to the Amarillo Oil Company, or to the company to be organized as herein contemplated, free and clear of all debt and incumbrances, except as herein provided.

Description of the property to be transferred by the re-

spective parties and consolidated is shown by Schedule A herewith attached.

Signed this 30th day of April, 1924.

PERRY A. LITTLE.
T. J. DRISCOLL.
PRODUCERS AND REFINERS CORPORATION,
By F. E. KISTLER, Chairman
THE MISSION OIL COMPANY,
By FRANK E. JONES, President.
PANHANDLE PIPE LINE COMPANY,
By PERRY A. LITTLE, President.
MOUNTAIN STATES GAS COMPANY,
By F. E. KISTLER, President.
PRAIRIE OIL AND GAS COMPANY,
By N. K. MOODY, President.

Schedule "A."

Property of Amarillo Gas Company.

All assets of said company including franchise granted by the City of Amarillo, all pipe lines, real estate, buildings, tools and machinery, regulators, meters, contracts, or other property of any kind or character used in or in connection with its business of distributing and marketing gas in the City of Amarillo, Texas, it being the intention to cover all property, both personal and real, of any kind or character used by above said Amarillo Gas Company.

Property of Panhandle Pipe Line Company.

All assets of said company, rights of way, contracts, pipe line connecting the Amarillo gas field with the city of Amarillo, and any and all property, both personal and real, of the said Panhandle Pipe Line Co.

Property of Producers and Refiners Corporation and Property of Mountain States Gas Company.

All their rights under oil and gas leases in the Amarillo gas field, which includes any and all materials, tools, interest in tools, pipe, casing, rigs, and material and sup-

plies of every kind and character used in connection with said leases, these leases being shown by the following list.

No.	Name	County	Acres
T-1045	August Blissenbach	Potter County	160
T-1046	J. T. Sneed, Jr.	Moore	640
T-1047	Lee Bivins	Potter	40
T-1048	R. B. Masterson	Potter	100
T-1049	R. B. Masterson	Potter	80
T-1050	J. T. Sneed, Jr.	Moore	5440
T-1051	R. B. Masterson	Moore	160
T-1052	Lee Bivins	Potter	20
T-1053	D. P. Seay	Moore & Potter	540
T-1054	R. B. Masterson	Potter	80
T-1055	Fuqua Land & Cattle Co.	Potter	1280
T-1056	R. B. Masterson	Moore	40
T-1057	J. T. Sneed, Jr.	Moore	160
T-1058	R. B. Masterson	Moore	40
T-1059	Teant L. McBride	Potter	40
T-1060	R. B. Masterson	Potter	40
T-1061	Lee Bivins	Potter	40
T-1062	Lee Bivins	Hutchinson, Carson Moore & Potter	2240
T-1063	M. E. Mill r	Moore	212.5
T-1064	Lee Bivins	Hutchinson & Carson	160
T-1066	Terry Thompson	Moore	7603.8
T-1067	Lee Bivins	Carson & Potter	6749.3
T-1068	L. H. Crawford	Potter	1440
T-1069	J. M. Crawford	Potter & Moore	480
T-1070	Wm. H. Bush	Potter	9000
T-1071	R. B. Masterson	Potter	2200
T-1072	W. H. Ingerton	Hutchinson	2000
T-1073	R. B. Masterson	Potter	160
T-1074	E. S. Poling	Carson	80
T-1075	Lee Bivins	Oldham, Harkley, Moore, Potter, Hutchinson, Carson	200000
T-1076	R. B. Masterson	Moore & Potter	29455.11

No.	Name	County	Acres*
T-1077	R. B. Masterson	Potter	160
T-1078	Lee Bivins	Potter	20
T-1079	J. M. Crawford	Moore	175.8
T-1080	C. J. Hansen	Moore	160
T-1081	Anthony Walters	Moore	332.67
T-1082	R. B. Masterson	Potter	159.88
T-1083	R. B. Masterson	Potter	482.05
T-1084	R. B. Masterson	Potter	324.9
T-1085	R. B. Masterson	Potter	280
T-1086	R. B. Masterson	Moore & Potter	320
T-1087	R. B. Masterson	Potter	201.75
T-1088	R. B. Masterson	Potter	262.77
T-1089	R. B. Masterson	Potter	*594.7
T-1090	R. B. Masterson	Moore & Potter	320
T-1091	R. B. Masterson	Potter	200
T-1092	O. H. Cooper	Moore	212.5
T-1490	E. E. Masterman	Moore	679.8

*More or less.

Property of Amarillo Oil Company.

All assets of said company including rights of way, contracts, a gas pipe line connecting the Amarillo gas field with a smelter in the vicinity of the City of Amarillo, Texas, and all its rights under oil and gas leases in said Amarillo field which will also include any and all materials, tools, interest in tools, pipe, casing, rigs, and material and supplies of every kind and character used in connection with said leases in said field, said leases being shown in the following list.

No.	Name	County	Acres
501	Lee Bivins	Potter	14,000
502	R. B. Masterson #1	Potter	19,000
503	Mrs. J. C. Warick	Moore, Carson, Potter & Hutchinson	2,400
504	R. B. Masterson #2	Potter	10,000
505	R. B. Masterson #3	Potter	5,000
506	R. B. Masterson #6	Potter	1,300
			51,700

There was also introduced in evidence Exhibit 160, a document captioned, "Proposition," executed by Albert R. Jones, Harry W. Jones, and E. W. Goebel, under date of November 20, 1918, which Exhibit 160 is as follows:

Proposition.

Whereas, the Amarillo Oil Company, a Texas corporation, is the owner of certain oil and gas leases, upon lands situated respectively in Potter, Hutchinson, Carson and Moore Counties, Texas, and more particularly described in Schedule A, hereto attached and made a part hereof, and is desirous of having said leases developed for oil and gas, and:

Whereas, the undersigned, Albert R. Jones and Harry W. Jones of Johnson County, Kansas, and E. W. Goebel, of Wyandotte County, Kansas, are desirous of entering upon the development of said leases, if satisfactory terms can be made in reference thereto.

Now Therefore, we, the undersigned, Albert R. Jones, Harry W. Jones and E. W. Goebel, do hereby propose:

First: That upon the acceptance of this proposition, the said Amarillo Oil Company will deposit with the National Bank of Commerce, of Amarillo, Texas, its oil and gas leases to, of and upon the lands described in Schedule A, hereto attached (intending to cover all of the oil and gas leases owned by said company of and to lands in said counties at this date, except the oil and gas lease upon the Southwest one-quarter of Section Seventy-one (71), Block O-18 (D. and P. R. R. Co.) hereto attached), together with legal and valid assignments of an undivided one-half (½) interest in and to said leases and each of them to us the said Albert R. Jones, Harry W. Jones and E. W. Goebel, subject to its option contract with Perry S. Little for gas pipe line, together with an escrow agreement or memorandum directing the delivery of said assignment or assignments to us, the said Albert R. Jones, Harry W. Jones and E. W. Goebel, upon the performance of the conditions of this proposition by us.

In consideration of the deposit and assignment or assignments as aforesaid, we, the undersigned hereby propose:

First, To drill five (5) wells upon the lands hereinbefore

mentioned, at points or locations to be agreed upon by the parties to this proposal, as follows, to-wit:

Two (2) wells to be drilled to a depth of Twenty-four Hundred (2400) feet, provided, however, if in the drilling of said wells there is obtained a production of natural gas per well to the amount of not less than five million (5,000,000) cubic feet in Twenty-four (24) hours, or of petroleum oil to the amount of not less than Fifty (50) barrels per day, at a lesser depth than Twenty-four Hundred (2400) feet, then and in that event, said well from which said production is obtained, shall be deemed a completed well in compliance with the terms of this proposal.

Two (2) wells, drilling to commence promptly upon completion of said two gas wells, to be drilled to a depth of Twenty-four Hundred (2400) feet, provided however, if in the drilling of said two wells, there is obtained a production of oil to the amount of not less than Fifty (50) barrels per day at a lesser depth than Twenty-four Hundred (2400) feet, then, and in that event, said well from which said production of oil is obtained, shall be deemed a completed well in compliance with the terms of this proposal.

Second. To drill One (1) well to a depth of Three Thousand (3000) feet; provided, however, if in the drilling of said well a production of not less than Fifty (50) barrels of oil per day is obtained therefrom, at a lesser depth, then and in that event, such well will be deemed a completed well in compliance with the terms of this proposal.

Third. If in the drilling of any of the said wells herein provided for, a production of oil is obtained to an amount of not less than one hundred (100) barrels per day of Twenty-four (24) hours at a depth greater than Twenty-four Hundred (2400) feet, then we, the said Albert R. Jones, Harry W. Jones and E. W. Goebel, will drill all of the balance of the said five (5) wells remaining to be drilled by them, to the depth of said one hundred (100) barrel production, unless a production of gas to the amount of five million cubic feet per day, or a production of oil of not less than fifty (50) barrels per day is obtained at a lesser depth.

Fourth. That we, the said Albert R. Jones, Harry W. Jones and E. W. Goebel, will, within ten (10) days after notice of the acceptance of this proposal, order and contract

for the lumber, timber and other materials necessary for the drilling of two of said five (5) wells, and will within sixty days (60) after said notice start the drilling of one (1) of said wells. Provided, however, that if at the expiration of said sixty (60) days, drilling has not started, for reasons unavoidable by ordinary care and diligence; but at said time the drilling contractor is upon the land where said well is to be drilled, equipped with the proper tools and men to do said drilling, then and in that event, we, the said Albert R. Jones, Harry W. Jones and E. W. Goebel are to have an extension of ten (10) days over and above said sixty (60) days within which to start said drilling. The drilling of the second well to be started within thirty (30) days after drilling is started on the first well.

Fifth. That if after two (2) of the said wells herein proposed to be drilled, have been completed by us, we, the said Albert R. Jones, Harry W. Jones and E. W. Goebel, should fail to start immediately or complete the remaining wells; and do not desire so to do, and shall so notify said Amarillo Oil Company, said company shall by legal and proper assignment or assignments convey to us, the said Albert R. Jones, Harry W. Jones and E. W. Goebel, an undivided one-half (½) interest, in the Oil and Gas Leases so as aforesaid owned by said Amarillo Oil Company of and to a one-half (½) section of land, surrounding each of said wells, each to be in a solid block of land, and said assignment shall be a full cancellation of any obligation on the part of said oil company to deliver or cause to be delivered to us, the assignment or assignments of Oil and Gas Leases first hereinbefore provided for.

Sixth: That upon the completion of the said five (5) wells as herein provided, in addition to the leases upon the lands mentioned in Schedule A, the said Amarillo Oil Company, will at once convey to us, the said Albert R. Jones, Harry W. Jones and E. W. Goebel, by legal and valid assignment, a one-fourth (¼) interest in and to the gas rights now held by it of and to the Southwest quarter (¼) of Section Sixty-five (65), Block O-18 (D. & P. R. R. Co.), including one-fourth (¼) of gas well on said land and of the production of gas from said well, excepting all oil produced on said land, and by said well. Said assignment of said lease, to be executed and deposited in escrow as provided herein in respect to other leases.

Seventh. All material to be furnished and the drilling of the five (5) wells hereinbefore described, to be at the expense of us, the said Albert R., Harry W. Jones, and E. W. Goebel, and to be without expense to said Amarillo Oil Company, and the work of drilling said wells when commenced as agreed, shall be prosecuted continuously with due diligence till said five wells are completed, however, subject to the rights of said Albert R. Jones, Harry W. Jones and E. W. Goebel, under fifth paragraph hereof. Provided, however, that we, said Albert R. Jones, Harry W. Jones and E. W. Goebel shall have the right to use all gas produced from and of the said wells drilled by us necessary in the drilling of said wells, free of charge, and that said Oil Company will use its efforts to obtain for us the use of gas necessary for the drilling of the first well to be drilled by us, from the gas well known as the Hapgood Well, drilled under the Company's lease.

Eighth. If upon the completion of two (2) wells, we, the said Albert R. Jones, Harry W. Jones and E. W. Goebel, shall elect to terminate their contract as herein provided: Or upon the completion of said five (5) wells shall have the right to take and remove from the lease premises any tools, casing, piping, rigs and all other personal property belonging to them not in use in, or in connection with a producing well drilled by them.

Dated November 20th, 1918.

ALBERT R. JONES,
HARRY W. JONES,
E. W. GOEBEL.

We accept the foregoing proposition, this 20th day of November, 1918.

AMARILLO OIL COMPANY,
By M. C. NOBLES, President.

Schedule "A."

Lands situated respectively in Potter, Hutchinson, Carson and Moore Counties, Texas, upon and to which the Amarillo Oil Company, a Texas corporation, hold oil and gas leases.

Masterson: Block O-18, D. & P. R. R. Co.

Section: All of 70, ½ of 71, all of 72, ¾ of 63, ½ of 64, ½ of 65, ½ of 66, ¼ of 67, all of 92, 93, 102, ½ of 103, all of 108, ½ of 107, ½ of 104, all of 101, 91, 90, 95, 105, ½ of 106, ¾ of 110, all of 99, 96, 89, 88, 97, 98, 109.

Block 47, H. & T. C. Ry.

Section: All of 67, 66, 65, 64, 63, ¾ of 62, all of 61, 60, 59, 58, 57, 56.

Block G. & M. 3.

Section: ¾ of 16, all of 26, ¾ of 25, all of 27, 29, 30, 31, 32, ½ of 33. all of 35, 36, 37, ½ of 42, all of 43, ¾ of 44, 1/3 of 15, all of 83, 84.

Bivens: Block 46, H. & T. C. Ry.

Section: All of 77, 79, 81, 83, 87, 89, 90, 91, 97, 99, ½ of 101, all of 103, 105, 106, ½ of 107, all of 108.

Block G. & M. 20.

Section: All of 1, 2, 3, ¾ of 4, all of 5, ¾ of 6, all of 14, 15, 16, 31, 32, 40, ¾ of 41.

Block G. & M. 3.

Section: All of 11, 18, 20½, 22, 23, 24 and Palmer survey, just north of Section 14, Block G. & M. 20.

Ozier: Block 47, H. & T. C. Ry.

Section: All of 48, ½ of 49, ½ of 50, all of 51, ½ of 53, all of 54, ½ of 55.

Block G. & M. 3.

	Section:	1/3 of 52, ½ of 53, all of 54, ½ of 51, ½ of 50, ½ of 79, ½ of 76.
	Block 12, D. & P.	
	Section:	All of 10.
Merchants:	Block 47, H. & T. C. Ry.	
	Section:	All of 32, 34, 37, 38, 39.
Ingerton:	Block 47, H. & T. C. Ry. ½ of 41.	
	Block B, S. & F, ¾ of 1.	
Warrick:	South of ½ of N. ½ of Sec. 94, Block 46, Moore County, and NW¼ Sec. 12, Block Y 2 Carson County, and the SW¼ Sec. 12, Blk. Y 2 Carson County, SW¼ Sec. 96, Block 46, Moore and Potter County, Sec. 16, Block Y 2 Potter County, N ¾ Sec. 96, Blk. 46 Moore and Potter Counties, Sec. 92 Blk. 46 Moore and Hutchinson Counties.	

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48. **Original Cost of Canadian's Properties at December 31, 1928, to December 31, 1939, Inclusive, and as Estimated 1940 to 1947, Inclusive. Section B.**

Exhibit 67, WITNESS LUSK, entitled "Original cost of Denver pipe line properties at December 31, 1928 to 1939, inclusive," shows such original cost separately as between the portion owned by Colorado Interstate and the portion owned by Canadian. This exhibit has been abstracted above, particularly with reference to Colorado Interstate's portion of said Denver Line.

Such original cost as relates to Canadian's portion of the Denver Line is shown on Statement 1 of Exhibit 67 as of December 31 of each of the years 1937, 1938 and 1939, as follows:

Item No.	Account Nos. (Company)	Description	1937	1938	1939
		Owned by Canadian River Gas Co.			
		Transmission System:			
1.	218; 221; 224	Main Compressing Station	$ 599,983	$ 659,917	$ 663,791
2.	218; 220; 226	Transmission Lines	2,658,679	2,689,312	2,690,109
3.	218; 222; 225	Measuring Stations	22,447	22,225	23,088
4.	900; 902; 903; 904; 905; 906	Gasoline Plant	364,504	364,451	365,312
5.	255	Telephone System	85,821	86,337	87,431
6.		Total	$3,731,434	$3,822,242	$3,829,731
7.		Adjustment for General Construction Costs Applicable to Net Property Additions	4,376	8,463	8,800
8.		Total Original Cost	$3,735,810	$3,830,705	$3,838,531
		General Property: (A)			
9.	223; 227	Bivins Camp			
10.	247; 248; 249; 250; 256; 257	Other General Property	$ 161,573	$ 179,289	$ 186,929
11.	253	Automobiles and Trucks			
12.		Adjustment for General Construction Costs Applicable to Net Property Additions	1,563	2,386	2,736
13.		Total General Property	$ 163,136	$ 181,675	$ 189,665
14.		Total Original Cost of Canadian River Gas Co. Property	$3,898,946	$4,012,380	$4,028,196

Note: (A) Amounts shown represent allocations to Denver Line, as shown on Statements Nos. 3, 4, 5 and 6.

Items 1 to 5 are book figures, as are Items 9, 10 and 11, inclusive. Items 7 and 12 are adjustments for general construction costs applicable to net property additions.

Luttring and Teel's Exhibit 146, in so far as it relates to Canadian's portion of the Denver Line, including the Bivins Compressing Station, is heretofore abstracted in Title 19.

Additional facilities in connection with Canadian's portion of the Denver Line were shown by the company to be required during the period, 1940 to 1947, inclusive, in Exhibit 66, page 19 consisting of extension of Bivins compressor station by the addition of five 600 H.P. units, one to be installed in 1941 in the present building, and the other four units to be installed in a new building in 1942; also a new Dalhart compressor station to be installed in 1940 with five 600 H.P. units (four units of which have already been completed and in operation since early in 1940). (Vol. VIII, p. 1084.)

The cost of these additional facilities is shown in Exhibit 133, Witness Lusk, as follows:

Extension to Bivins compressor station	$302,093
New Dalhart compressor station	$266,523

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49. Present Market Value of Leases Owned by Canadian, January, 1941.

For the respondent there was introduced and received in evidence (Vol. LIII, p. 7459) through the witness, Mr. R. J. Wallace, Exhibit No. 181 covering the present market value of leases of Canadian. This exhibit is prefaced by a 21-page statement of Mr. Wallace which appears in the record. (Vol. LII, pp. 7178-7197.) This preface is followed by a map of all Canadian leases in the field, a map of the Masterson consolidated lease, and detailed data relating to each of the leases of the Canadian.

A resume of Mr. Wallace's testimony covering his iden-

tity, experience and qualifications, is as follows: (Vol. LII, pp. 7178-7183.)

He resides in Dallas, Texas. Since October 1, 1940, he has been Vice President of Republic Natural Gas Company. Prior thereto he operated independently as a producer of oil and gas and for many years past conducted a brokerage business for the purchase and sale of oil and gas properties and leases. In 1907 he worked in the oil fields near Bartlesville, Oklahoma, as roustabout and night pumper for Lahoma Oil and Gas Company. In 1908 and 1909 he was employed by Prairie Oil and Gas Company in its Civil Engineering Department on tank and pipe line construction. In 1909 and until 1911, he attended college in the winter and in the summer worked at surveying, as a tool dresser on drilling wells and general oil field work. In 1912 he was elected Register of Deeds for Washington County, Oklahoma, the county seat being Bartlesville. This county was probably one of the most active in oil and gas development at that time. By far the largest percentage of instruments recorded was all types of leases, stipulations and contracts for leases. In 1913 he became Superintendent of the Land and Leasehold Department of the Quapaw Gas Company and associated companies. This was the first large gas company at that time operating in northern Oklahoma. These companies later became the Empire Companies. His work consisted of acquiring and supervising the purchasing and taking of gas leases direct from landowners and brokers. As the company expanded it acquired leaseholds in the states of Alabama, Mississippi, Arkansas, Louisiana, Texas, Oklahoma, Kansas, Colorado, Wyoming and Montana. From 1915 until the latter part of 1919 he was attached to the Production Department of the Gas Division of the Empire Companies and was made Superintendent of the gas pipe lines in the Cushing Field, Oklahoma, which at that time was the largest gas reserve in Oklahoma. He also purchased oil and gas production and acquired gas leases for the gas division. In 1919 through 1920 he was Manager of Oil and Gas Operations in Louisiana for the joint operations of the Empire Companies, the Barnsdall Oil Company and H. V. Foster Interests, his work consisting in supervision of drilling wells, purchasing leases, and selling leases to help finance the ventures. The Empire

Companies withdrew from the joint operations in Louisiana, leaving him with the Barnsdall and Foster Interests. In January, 1921, he was transferred to Billings, Montana, as Manager of Oil and Gas Operations in the Rocky Mountain states. The Barnsdall Foster Company was organized, of which he was General Manager until 1924. He sold his 60% interest in the properties of the Barnsdall Foster Company to the Midwest Refining Company. Later in 1924 he resigned from Barnsdall Foster Company and organized the Record Petroleum Company, in which he owned a substantial interest. This corporation operated in Montana as a leasing company; drilled wells on its own account and as drilling contractors. An interest in a portion of the property was sold to the Midwest Refining Company. In 1926 and until 1928 he secured leases and permits from the government for his own account in the states of Montana, Wyoming and New Mexico. Also during this period the Texas Panhandle Field became quite active, and he made several trips to the Amarillo District to acquaint himself with this activity and the values of leases. In 1928 he moved to Tulsa, Oklahoma, to engage more actively in the brokerage business and in valuation and appraisal of oil and gas properties. He devoted practically the entire year 1929 in consummating two sales. One was the sale of a one-half interest of all the undeveloped oil and gas leases, being approximately 492,000 acres in Kansas and Oklahoma owned by Amarada Petroleum Company to the Dixie Oil Company. The consideration for this one-half interest was $10,000,000. Also the sale or merger of the McMann Oil Company with the Dixie Oil Company which involved a stock merger set up on the value of the properties and was approximately $12,000,000. In 1930 and until 1932 he conducted a general brokerage business and also developed a new gas field on the eastern edge of Kansas City, Missouri. He drilled a number of gas wells and built a pipe line system and sold the gas to the American Pipe Line Company. From 1932 to 1935 he sold gas properties near Kansas City, Missouri, and, in addition to his brokerage business, became Vice President and General Manager of the Signal Oil Company, a producing company operating in Oklahoma and Kansas. He was put in charge of the Signal Oil Company by a creditor bank. In 1936, after drilling some ad-

ditional wells, he sold the production and some of the undeveloped leases for enough to pay the bank's indebtedness and then turned the company back to its owners. In 1936 and until 1938 he drilled a number of wells in the Burton Field, Kansas, in which he owned a one-fourth interest. These wells were combination oil and gas wells and resulted in the building of a casinghead gasoline plant on the property. In the latter part of 1938 he sold his interest in the oil properties retaining his interest in the gasoline plant. From 1938 and until October, 1940, he has been engaged entirely in the brokerage business and in valuation of oil and gas properties and leases. During the years he was employed by various companies and operating the brokerage business he has had occasion to acquire leases in the Texas Panhandle Field and also the Hugoton Gas Field in Kansas. He first became acquainted with the Texas Panhandle Field in the very beginning of operations. Under his supervision there were acquired many thousands of acres in the Texas Panhandle Field and in areas generally surrounding that field.

On cross-examination concerning his previous experience Mr. Wallace testified (Vol. LII, pp. 7199, et seq.) that he first began work in connection with oil and gas leasing in the latter part of 1912, when he did some leasing for Lahoma Oil and Gas Company prior to taking over the position with the Quapaw Gas Company. This leasing then was mostly confined to an oil field in Nowata County, Oklahoma, east of Bartlesville. The next place was where the town of Duncan, Oklahoma, is, which involved leasing for both oil and gas. He first became interested in oil and gas leasing in the state of Texas during the border trouble in 1916, when he was in charge of a large party of both geologists and lease men who were leasing in Star and Zapata counties, Texas. While engaged in the leasing occupation he had made no study of the geology of oil or gas, other than the practical part of such work, certain features of which he absorbed. While he is not a geologist, he feels that he, from practical experience and association with geologists and engineers, is acquainted with some of its forms. He does not claim to be in position to make an estimate of the reserves of oil or gas. He has been through

the Texas Panhandle Field many, many times and has observed the oil properties and the gas properties also. The merger between the McMan Oil Company and the Dixie Oil Company involved some oil properties which were in the Texas Panhandle Field and some in the Pecos Field in Texas, and some in Osage County, Oklahoma, and his occupation in connection with these leasing matters took him into the Panhandle Field and other fields. The most generally accepted form of lease then used was the Mid-Continent 88 Form, or forms similar thereto, which cover both oil and gas, provided both are negotiated for. Right after the discovery of the Eldorado, Kansas, Field in 1915 he and Mr. Ford leased the entire field through a broker, with leases covering both oil and gas. He could not say for certain that any of this area is what is now known as the Panhandle Field but it covered land in Powers, Moore, Potter and Gray counties, where they checkerboarded the leases, taking 160 acres out of each 640 acres, where possible. While he does not recall the exact acreage which was leased at that time, there were from one-half million to one million acres under lease in different states. He does not know when the first leasing took place in the Texas Panhandle Field and, without looking up the records, does not know whether his original leasing covered any of the acreage now owned by Canadian. In his Exhibit No. 181 he has itemized all the older leases in the Texas Panhandle Field and has checked into the history of all the leases now owned by Canadian, but cannot recall whether his original leasing in Texas Panhandle Field covered any of the present Canadian River acreage. As shown by Exhibit 194 all of the original acreage acquired between 1917 and 1919 was acquired by Amarillo direct from landowners.

After thus testifying as to his qualifications and previous experience, Mr. Wallace further testified as follows: (Vol. LII, pp. 7183, et seq.)

That he had been requested to make a report setting forth the present market value of leases owned by Canadian located within the counties of Moore, Hutchinson, Carson, Potter, Oldham and Hartley, Texas. It was necessary for him in the preparation of this valuation to spend many weeks in the Amarillo office of Canadian and in the field.

The status of each lease, the consolidation of leases, the development requirements of each lease and the relationship to other leases, the subjection to outside drainage, the desirability of well blocked acreage to checkered acreage, the large amount of acreage held under one leasehold, the location as to the particular gas productive areas as indexed by the wells drilled within those areas, the rock pressures, and the location of the acreage within the generally accepted proven "sweet gas" areas were some of the factors considered in arriving at the market value of the leases. A very important factor shown in the lease holdings of Canadian favorable to their value is the result of a process of elimination and state of evolution the leases have gone through and favorable consolidation contracts whereby the construction or drilling costs have been reduced to a minimum. The Texas Panhandle Field, unusual to many fields, is accepted as a proven gas field within a boundary line generally accepted as well as a generally accepted area within the field of what is known as a "sweet gas" area and what is known as a "sour gas" area.

Mr. Wallace then defined in considerable detail the area of the field containing within its present limits approximately 1,450,000 acres of oil and gas lands. (Vol. LII, p. 7185.) He stated there was a generally accepted boundary within the proven area of approximately 1,000,000 acres of "sweet gas" lands, the balance being oil-producing lands along the northern boundary of the field and the "sour gas" lands located within the oil area and in the northern and western part of the proven gas area in Hutchinson, Moore and Hartley counties, Texas.

The leases of Canadian valued in Exhibit No. 181 fall within the proven "sweet gas" area, a small portion within the "sour gas" area, and a portion in the area south of the fault line not accepted at this date as proven acreage.

Mr. Wallace then testified as to the history of wastage of gas in the Texas Panhandle Field. (Vol. LII, p. 7186.) During the years of "stripping gasoline" there was estimated in excess of more than 1,000,000,000 cubic feet per day being blown in the air during 1934. As a result of state legislation and serious efforts of the Texas Railroad Commission to enforce the provisions of legislation wastage

has been reduced at the present time to less than 50,000,000 cubic feet of gas per day. The leaseholds of Canadian were generally not within the area where "stripping" took place, and consequently did not suffer the same drainage and loss of rock pressure as did other parts of the field.

From the beginning of the active development of the oil pools in the Texas Panhandle Field in 1926 there was an excessive waste of gas, and in the early days there was no appreciable market for gas for light and fuel, and consequently at that time gas was of little or no value and likewise the market value of leases was very low. The field at that time was termed a "Wild Cat" area, with the producing extent or boundaries of the field not known. Beginning in about 1927, when some of the major gas pipe lines were being planned, the market value of leases increased very rapidly. In the purchases of large acreages prices were paid in excess of some of the smaller individual tracts for the reason that leases on large tracts and well blocked leases were more attractive to the operators who had provided themselves with a market outlet. The original values were paid in form of cash per acre as well as certain definite obligations to drill wells and build pipe lines as the original consideration for the leases. (Vol. LII, p. 7187.)

In 1933 a law was passed permitting the owners of gas wells on small tracts to open up their wells and process the gasoline content therein and blow the residue to the air. This had the effect of lowering the value of leases, as by 1943 there was an estimated 1,000,000,000 cubic feet of gas per day being blown to the air, a large percentage of which was from the "sweet gas" area. In 1935 the Texas legislature repealed the "Stripping Law" by the passage of House Bill No. 266, which House Bill prohibited the blowing into the air of any gas other than the "casinghead" or that gas produced with oil, too low in pressure to be admitted into a major gas pipe line. Later another law was passed providing that sour gas could be utilized for the manufacture of gasoline, providing the residue gas was used in the manufacture of carbon black. A study of the total withdrawals during the past few years shows that present withdrawals of dry gas for carbon black purposes

are limited to sour gas and casinghead gas which is produced in the sour gas area and in the oil-producing area along the boundaries of the proven field.

The conservation legislation, as administered by the Texas Railroad Commission, has had a tendency to increase the market value of leases within the "sweet gas" area, and this activity of the legislature and Railroad Commission has had a tendency to create greater values for the reason that a purchaser of proven leases would now be justified in paying a consideration for leases from which he could reasonably expect a profit based upon the purchaser's estimate of recoverable gas from the leased tracts.

Mr. Wallace then testified that the Canadian leases are located in different gas productivity areas and have been placed by him in several classifications. In determining these classifications (Vol. LII, p. 7189) consideration has been given to the proximity to wells of certain open flow and rock pressure, the past producing history of the wells, and the location of the Canadian leases with reference to the leases of other companies and with gas pipe lines. Consideration has also been given to the manner in which the leases were blocked and the term of the unusually favorable leases and the large acreage under several leasehold contracts and the favorable contracts of consolidation of leases. The above, as well as other factors, were used in determining the value and classifications adopted. Mr. Wallace stated that in the matter of consolidation of leases special attention should be given to the advantage of owning leases under his form of lease contract compared to those of separate and individual leases. Under a consolidated lease the lessee is relieved from drilling many additional wells and is relieved from the duplication of implied drilling and other obligations which would exist in the case of individual leases, as distinguished from a consolidated lease, as well as from the delay rental obligation incident to individual leases. The advantages obtained through consolidation, therefore, add to the value of the leases. (Vol. LII, p. 7190.)

Mr. Wallace then called particular attention to the consolidation known as the Masterson Lease (Vol. LII, p. 7190) which he stated was probably one of the most outstanding

examples of consolidating leases in order to be able to economically operate a gas reserve. Originally what is now included in the consolidated Masterson Lease consisted of a number of individual leases covering individual tracts of as small as 10 acres, 20 acres, and up to 640 acres. Seventy separate leases and transactions were eventually consolidated by Canadian into the Masterson consolidated lease, which has resulted in perpetually holding all the acreage by the wells drilled. With the consolidated lease the discovery of gas on any part of the lands covered has resulted in Canadian gaining title to its portion of the gas in place in the entire consolidated acreage, which usually takes years to accomplish and which adds additional value to the leases and the acreage reserve as a whole. (Vol. LII, p. 7192.) From an operating standpoint the consolidation has decreased the number and density of the wells required to be drilled by Canadian. This is due to the large acreage in the leases which are almost solidly blocked and to their location in the proven gas area. Likewise, the large acreage reserve reduces to a minimum the cost of gathering lines or system, which also is an additional factor the purchasers of leases would consider in valuing the leases.

In evaluating Canadian leases it was necessary for him to prepare an exhibit such as Exhibit No. 181, including a take-off of each separate lease showing the date of the lease, the number of the lease, the lessor's name, the name of the original lessee, the location and description and acreage, the royalty payable to the landowner, and the terms and amounts of delay rentals and, in case of consolidation with other leases, the lease numbers under the consolidation: also the data with reference to all wells drilled and the original open flow and rock pressure, and the latest open flow test and rock test, and the amount of gas marketed from each well in Mcf., as shown by the Canadian records. On each take-off sheet is a notation as to the productive area and pressure area in which the lands are located made from personal observation on the lease or in proximity thereto and from the records and maps of the company.

Mr. Wallace in this exhibit has placed each lease in a

certain classification noted on each sheet in the exhibit, together with the value of each classification representing in his opinion the present market value. He has shown in the exhibit a summary or recapitulation of the total acreage in each classification and the total market value of each classification. The exhibit contains maps and other lease data referred to above.

Although the Canadian leases are well blocked, he found it necessary, due to many conditions existing in their locations, to place them in seven different classifications. These classifications he has designated as follows: A1, A2, A3, B1, B2, B3, and C. Under the different classifications he has placed valuations as follows:

Class A1	$125	per	acre
Class A2	100	"	"
Class A3	75	"	"
Class B1	50	"	"
Class B2	25	"	"
Class B3	10	"	"
Class C	1	"	"

(Vol. LII, p. 7194-A.)

In arriving at the value of $125 per acre for Class A1 acreage and from the study he has made, it is his opinion that it is the highest class acreage and should produce the largest per-acre income. Less drilling per acre will be required on Canadian leases than on any other reserve in the field. He estimates that one well to each two sections should be the ultimate density it will be drilled. Therefore, with one well to each 1280 acres the value of that acreage at $125 per acre would be $160,000. He estimates the cost of completing a well to be $25,000, which would result in a total investment of $185,000 for two sections with a well completed. As some of the leases provide a royalty of 1c per thousand cubic feet to the landowner, some 3/16 of 4c per thousand, and some 1/8 of 4c per thousand, he has allowed 1c per thousand cubic feet as royalty on all Class A1 acreage and has also deducted 1c per thousand cubic feet for the expense of operating the well.

From his study of the field generally and the leases and division orders on gas-producing properties, he has found

that 4¢ per thousand cubic feet is a generally adopted price for gas. Consequently, in order to amortize the purchase of Class A1 leases the cost of drilling a well, the landowner's royalty, the Canadian, as lessee, would only have to produce 7,200,000 cubic feet per acre to receive its money back. Mr. Wallace then stated that the valuation placed on the other classifications is based upon his experience judgment. It is quite customary, when purchasing leases, to arrive at the value of the choicest acreage and then estimate, as he has done, the lesser values of acreage not so well located.

Mr. Wallace then testified (Vol. LII, p. 7195) that in his judgment the total market value of the Canadian leases, exclusive of oil rights, is $15,664,787.64, as shown by the recapitulation attached as a part of Exhibit 181, as corrected in Volume LIII, page 7304.

He then testified that in placing the values upon the Canadian leases he had not considered as a value factor the fact that the wells drilled thereon are connected to pipe lines or any value of contracts that Canadian has for the sale of gas. It is his opinion that if this acreage reserve were available it could unquestionably secure an outlet for its gas, exclusive of any pipe line now in the field.

He concluded his general statement (Vol. LII, p. 7196) by testifying that the "Present Market Value" of the leases, as set out in Exhibit 181, has been based on the leases and contracts applicable to the leases, but does not include gas sale contracts and no value has been placed on the producing wells or equipment thereon. He states it is quite customary to arrive at the value of leases and leasehold estates, and in the event of a sale the inventory value of material for wells, pipe lines, machinery, houses and structures thereon are added to the consideration when transferred. With respect to the value of oil rights in the area covered by the Canadian lease reserve he stated it is his judgment there is no value at this time for oil. The recapitulation of the present market value of the leases for each of the classifications made by Mr. Wallace in Exhibit 181 and contained in that exhibit, as corrected by Mr. Wallace on the witness stand (Vol. LIII, p. 7290), is as follows:

Classification	Classification Values	Acres	Value
A-1	$125.00 per acre	53,944.80	$ 6,743,100.00
A-2	100.00 " "	37,551.31	3,755,131.00
A-3	75.00 " "	25,064.70	1,879,852.50
B-1	50.00 " "	40,285.50	2,014,275.00
B-2	25.00 " "	31,174.80	779,370.00
B-3	10.00 " "	38,832.43	388,324.30
C	1.00 " "	86,734.84	86,734.84
Total		313,588.38	$15,664,787.64

It will be noted that in the total Value the figures "64" underlined above have been transposed, the correct addition being $15,6*46*,787.64, thus making the total as shown in the summary in this exhibit $18,000 too high.

Further testifying on cross-examination in connection with this exhibit (Vol. LII, pp. 7209, et. seq.) Mr. Wallace stated he did not approach his values by what was paid for the leases, but did base his values on his judgment of the present market value of the leases; that in his schedules he had taken the land, tract by tract, and from the index of the wells now drilled, the history of the wells, observation of open flow decline, rock pressure decline, and looking at the situation from the judgment of an operator he placed them in classifications, and then arrived at his present market values, which valuation, as above stated, is exclusive of any wells or well equipment. This exhibit fixes the present market value of the leaseholds of the Canadian. By market value (Vol. LII, p. 7211) he means a value from a willing seller to a willing buyer; namely, a seller who is willing to sell and a buyer who is willing and capable of buying without any distressed elements entering into it, such as mortgage foreclosures, indebtedness, and things of that nature. As the leases stand themselves is what he has reference to in defining market value. He did not take into consideration the quantity of oil or gas in place on any of this acreage, but he knows that a buyer of leases would consider this a proven gas area. When he sees a well producing and sees it tested, or observes or tests it himself, he can observe what it is producing. He does not know what the gas reserves are on this acreage, or any portion of it, and did not classify his

entries on that basis or place a market value on it on that basis. (Vol. LII, pp. 7211, et seq.) He made his classifications on the basis stated in his statement contained in Exhibit 181. In going over the Canadian property as well as other adjoining properties he has had the privilege of examining the records and wells in previous years, and has observed from experience judgment the areas which he considers most prolific, and he has based his values upon that. (Vol. LII, p. 7213.) In 1938 and 1939 he made quite a study of the adjoining properties of Shamrock Oil and Gas Company and also has had access to the records of Texoma Natural Gas Company for which he prepared a similar exhibit presented in the Natural Gas Pipe Line Company rate proceeding in Washington, in September, 1939, FPC Docket G-109.

Mr. Wallace reiterated his testimony abstracted above as to how he arrived at the different classifications. (Vol. LII, p. 7214.). He has never operated the Canadian acreage, but is operating similar acreage and has observed similar acreages. He is operating in the Hugoton Field for the Republic Natural Gas Company which markets to the Northern Natural Gas Company and which also has oil properties in Kansas and on the Gulf Coast. (Vol. LII, p. 7216.) He did not consult any engineer or geologist, but worked independently. He knows pretty well the minds of buyers of proven acreage of this type and has been associated with them in the purchase and sale of properties. He contemplates that a wiling buyer would purchase the acreage based upon his judgment. He thinks there is no question about it and feels certain it could be sold if it were available for sale, although a purchaser would probably employ geologists and engineers. From his experience judgment he states he could make a sale at the value he has set up. (Vol. LII, p. 7217.) By this he does not mean a sale of each of the tracts at the valuation price placed thereon, but he has taken the acreage as a whole as the law of averages will maintain in a reserve of this kind. There are no doubt small or individual tracts worth more than others in his classification and valuation, but the law of averages, he is certain, would maintain, and that would result in a very handsome profit. He does not know of a willing seller.

MR. WALLACE further testified as follows: (Vol. LII, Official Transcript, pp. 7218-7220.)

Q. You were defining what you had in mind as the present market value being what a willing buyer would pay a willing seller, is that correct?

A. That is correct.

Q. Is there a willing seller in this particular situation?

A. No, there is not as far as I know.

Q. Well, of course this is purely based on hypothesis on your part in so far as applying your definition of market value in this particular instance?

A. No, I am valuing this as if this property were not connected to pipe lines and had no gas sales contracts. I feel quite certain if this property were available at the values there, whether it is available or not available, there would be no difficulty in finding outlets for the sale of gas in the type of leases and well blocked that this property consists of.

Q. You reached this conclusion without having any petroleum engineer's estimate to guide you at all?

A. I have. The general knowledge I have of the field and the discussions in the field, the years it has produced, indicates to me that this classification I have used is very low over the amount of gas that will be recovered, but I do not know what that will be.

Q. As I understand, you have no knowledge of the reserves in that field, therefore you have no way of determining what the actual recovery of gas will be?

A. My knowledge is only hearsay.

Q. And therefore couldn't be used in this estimate?

A. This isn't based on the reserves.

Q. Then this estimate does not take into consideration any actual sales that have been made in that location of similar acreage?

A. No, there has never been a sale of similar acreage; there has never been a sale of as much proven acreage in one block and under the condition of these lease-holds to my knowledge.

Q. Therefore, some of the judgment figures have not been predicated on any sales?

A. No. I have sold more acreage than this, as I have recited—

Q. Not in this particular area, though?

A. Not in this particular field. It was in not large tracts but by small blocks.

Q. In your statement on the last page it specifically says that it does not take into account any oil rights at all; that you considered them of no value—

A. At this time I don't know any evidence in there that would justify owning oil rights in the area in the acreage where the Canadian River Gas Company is.

Q. Is there any such similar gas acreage of that extent available for purchase in the Panhandle field?

A. No, there is not.

Q. Have you had any connection with any sales of acreage in the vicinity of Canadian River Gas Company in the last few years?

A. No, I have not.

Q. Do you know what the records of any sales that may have taken place in that area disclose?

A. Yes, I have known of isolated tracts that were sold, small tracts, and they have run from $15 to $25 an acre, but invariably they have been small tracts of 640 acres or possibly two sections.

Q. Can you point out any of those on Exhibit 95?

A. I cannot. As I recall it, in going into the records of the Shamrock—I would have to refresh my memory—some of that acreage was acquired piece by piece for some twenty-odd dollars an acre.

Q. Where is that in relation to the acreage of Canadian River Gas Company?

A. Some joins it on the north.

Q. Some joins it on the north?

A. Yes.

Mr. Wallace was then questioned concerning the Rhetta Miller lease containing 212.5 acres (Vol. LII, p. 7222) which he had placed in Classification A2 at a valuation of $21,250. He pointed out that the original bonus paid for this lease was $5 per acre, and $12.50 per acre for renewal in 1928, with $1 per acre delay rental. He was asked how he arrived at the value of that acreage (Vol. LII, p. 7227), and answered that he classified the area where this acreage was included, but did not mean that the particular lease, as an individual lease, was worth that amount or that he would recommend its purchase as an individual tract for that amount, but that

as a part of a large reserve in a large area its value was increased. (Vol. LII, pp. 7228, et seq.)

MR. WALLACE then testified as follows: (Vol. LII, page 7229.)

Q. Of course, any gas lease that you have in this exhibit, or making it broader still, every gas lease in this exhibit is dependent entirely upon whether there is any gas under the land? If there is no gas there, not any one of these leases would be worth anything, is that true?

A. That is true, if it is demonstrated that there is no gas there, nobody would want them for gas.

Q. It would be entirely dependent upon gas being there in certain quantities?

A. Being a proven gas area.

Mr. Wallace was again asked (Vol. LII, pp. 7230, et seq.) whether it was possible to get anybody to even intimate that he would buy a considerable block of acreage without the report of petroleum engineers or geologists, and he answered that it was; that many, many acres of blocks and leases had been purchased before geology was ever applied to the oil and gas business in the Mid-Continent Field and many thousands of barrels of oil produced. At the present time engineers' and geologists' reports would be secured by a purchaser of gas acreage, but before closing a deal for the purchase or sale of the acreage. If this acreage were available to him in the form it is in covered by the existing leases, then with the number of wells drilled on it as an index to the production, the general knowledge of the field, the amount of gas that has been produced showing that there is 60% or 70% of the original rock pressure, a purchaser of leases like this would consider that a deal could be made and would purchase it, although it would be customary to have engineers go over it to see what the percentage of profit might be on the purchase price. (Vol. LII, p. 7231.)

Mr. Wallace has made no study of Canadian gas sale contracts and where he refers to contracts he means the leases. His valuation is not based at all upon gas sale contracts. (Vol. LII, pp. 7232, et seq.)

Mr. Wallace was then interrogated concerning the bonus

paid for certain other individual leases and the delay rentals thereunder, etc. (Vol. LII, pp. 7234, et seq.) and was asked (Vol. LII, p 7239) how he justified his larger valuations in view of the amount of bonus paid. He stated he did not take that into consideration and was not valuing the leases from the landowner's standpoint or what the landowner should receive, but from what he considered was the capability of the leases to show an earning. He cited the prolific Eldorado, Kansas, Field and stated that only for a very small portion of that field was any money paid to the landowners.

Mr. Wallace further testified as follows: (Vol. LII, pp. 7266-7276.)

Q. Now, what other acreage in the Bivins lease have you classified at $1 per acre?

A. 64,748.34 acres. Generally that acreage that I have classified in "C" classification is below the fault line; that is, the recognized southwestern boundary of the field and the acreage from the field south to the city of Amarillo, Texas.

Q. And the fault line is the staggered line indicated on Exhibit No. 95?

A. I believe that fault line is as it is staircased by the Canadian River Gas Company but I have used the fault line as nearly as possible that has been adopted by the Texas Railway Commission. A fault line usually runs straight. It doesn't run stairsteps.

Q. All of this acreage is below both of those lines, isn't it?

A. Yes, with the exception of possibly a portion of some of the leases that may extend over the fault line.

Q. Now, this acreage in that Section 190, right immediately north of Amarillo, that is, you say, in your opinion, one that has a value of $1 an acre?

A. At this time I don't think it has a value of more than a dollar an acre.

Q. You would say it even has a value of $1 an acre for gas production purposes?

A. A dollar an acre does not entirely represent the value for gas. I have given it $1 an acre—$1 an acre for this acreage, because it is part of one lease; it is all validated.

and there is a great deal of it that is "Wild-Cat," of which you know, and I have considered a dollar an acre was a fair value as a carrying charge, not as a value of gas.

Q. What in your opinion do you define as "Wild-Cat" acreage?

A. Acreage that is not accepted as proven acreage.

Q. As a matter of fact, there is no gas well that has ever been brought in on any of that acreage?.

A. No, but there are some dry holes on some of it.

Q. The dry holes have a very definite indication there is no gas in that particular area?

A. No, just in the well.

Q. But every well that has been drilled in that area has been a dry hole?.

A. That is right.

Mr. Keffer: Just a minute, Mr. Lange. What do you mean "in that area"?

Mr. Lange: This acreage he has under "C" below the fault line.

Mr. Keffer: You mean in the area on that acreage or in the general area?

Mr. Lange: On that acreage.

Mr. Keffer: There are two different things there. There are gas wells in that area but none of it is on this particular acreage.

By Mr. Lange:

Q. There is no producing gas well that has ever been drilled on what you classified under "C" in the Bivins lease?

A. No.

Q. Do you know the provisions of the Bivins Consolidated lease and what has to be done by the lessee in connection with that lease?

A. Yes, they are to drill or cancel.

Q. To drill or cancel?

A. Yes.

Q. There is no definite obligation for them to drill if they desire to exercise an option to cancel?

A. No.

Q. In any year they so desire they can cancel that par-

ticular drilling block or that block of acreage by so notifying the lessor?

A. That is correct.

Q. Without drilling and without any obligation?

A. That is right.

Q. And without any way affecting the remainder of the leasehold?

A. That is right.

Q. Then you still believe that in the light of the history of that particular acreage that you classified as "C" under Bivins, what has happened to it is it is still worth $1 an acre?

A. Yes, I do, because it covers such a large acreage and there are so many unknown quantities. It may be possible a pool may be discovered where that acreage is located.

Mr. Keffer: Could I interpose a question there, Mr. Lange?

Mr. Lange: Yes.

Mr. Keffer: Would you come to the map which is marked as Exhibit No. 95 and look in Section 37 in G-M Block 5 Potter County, and tell me what you find there on the Commission's map?

The Witness: A gas well is marked there.

Mr. Keffer: What is the size of that gas well?

The Witness: It came in originally purported to be 7,000,000 cubic feet. I don't know what it is at this time.

Mr. Keffer: What is marked on the map?

The Witness: 7,000,000.

Mr. Keffer: 7,000,000?

The Witness: Yes.

Mr. Keffer: Is that well south of the fault line?

The Witness: It is south of the fault line and it is a very deep well.

Mr. Keffer: How far is it from a substantial portion of this "C" acreage that is contained in the Bivins-Consolidated lease?

The Witness: Approximately a mile and a half or a mile and three-quarters.

By Mr. Lange:

Q. Whose well is that? Who owns that well?

A. It is purportedly owned by the Humble. I do not know the ownership of it just now. It may still belong to Humble.

Q. Going back to this 190 acres immediately north of the city of Amarillo, do you know anything about the well that was drilled by Canadian River on an acreage adjoining that?

A. Yes, I observed the drilling of that well from practically top to bottom.

Q. You did?

A. Yes.

Q. That was a dry hole?

A. Yes, sir.

Q. And what other drilling operations took place on that particular acreage?

A. On that particular lease?

Q. Yes.

A. There was an old well drilled about 2,000 feet deep, as reported on that map, that seems to correspond with the place on the map where I have indicated there. I think it was drilled by the City of Amarillo. It was a dry hole. It was only drilled 2,000 feet deep.

Q. When was it drilled?

A. I don't have the history of it.

Q. Was it drilled prior to the other well?

A. It was drilled prior to the well of the Canadian River.

Q. How far is that acreage from the nearest producing gas well?

A. This map—if this map was marked up to date—I don't believe it is—indicates it is about seven or eight miles from the helium gas field that is controlled by the United States Government.

Q. Is there any producing gas well closer than that?

A. Not unless that map is not accurate. I don't believe we have marked our map accurately, at least, I have not on the helium pool. I would have to check it. There are more wells in on the helium pool than I see on that map, but I don't know the location. I will say they are not close to that acreage as they are several miles removed.

[Testimony of Mr. Wallace (continued).]

Q. Now, the Bivins Consolidated lease aside from this acreage that is below the fault line, *covera* acreage above the fault line that is in the producing area, doesn't it?

A. Yes.

Q. And as you stated, this group of acreages that are covered by the Bivins lease below the fault line are subject to the company releasing them if they don't drill or pay delay rentals?

A. Yes.

Q. And you have given that acreage a value of $1 an acre?

A. Yes.

The Trial Examiner: You said something about there being a carrying charge, Mr. Wallace. What do you mean by that?

The Witness: That is a term we use in our industry. We quite often have leases that we don't consider of very much value but yet there is a remote possibility, particularly if they are scattered over large areas where there are deeper sands or something that they might come in; but yet at the present time, there is nothing to indicate any lease value; for the fact that they are part of one large lease or within or are checker-boarded, we usually call it a carrying charge or a carrying value of a dollar an acre. It doesn't represent the commodity. The oil and gas rights might be worth more, but it might cost more than that to secure a lease from a landowner so we call that a carrying charge in oil field terms.

By Mr. Lange:

Q. When you speak of a carrying charge, that is not to be in any way related to what you term market value?

A. Yes, it goes into the market value with a lease of 313,588.38 acres and having 64,000 of it that is not determined as proven acreage and not in the generally accepted proven acreage. I believe that all Class C acreage probably would sell. The 64,000 acres covers such an enormous area as it does there might be a possibility of some pools coming in.

Q. Let's take the Class C acreage standing alone, what about that?

A. That 64,000 acres amounting to $64,000, I believe there is enough evidence—the well we spoke of I presume is the Humble which will give you some encouragement—

Mr. Keffer: Just a correction there. The Humble at one time owned that but it has been sold to the Government. It serves as part of their helium reserve.

The Witness: I don't know what disposition was made of it. Another factor is that some of the dry holes that have been drilled in there have had some small showing of gas.

By Mr. Lange:

Q. You still value them at $1 an acre?
A. Yes.
Q. Do you think it is good operating management for Canadian River Gas Company to just release a whole block of 60,000 acres like that because they don't want to drill on it?
A. Yes, I think with the enormous proven acreage they have I would release it.
Q. You would just let that go and charge it off?
A. I would.

Mr. Keffer: I didn't get your answer.

The Witness: I said, yes, with a proven—with a large proven acreage I think I would personally consider the lease practically of the same value and accept $64,000 as it is.

By Mr. Lange:

Q. And if they release subsequent blocks, as they have the right to do, that would be good operating management?
A. I don't see that it would affect the producing lease in the least. I think the earnings that property would show—producing property and proven property wouldn't be affected in the least by the surrender of the "C" acreage.
Q. That would wipe out your Class C valuation there?
A. Yes, sir, that is right. If they didn't own it, I wouldn't classify it, but owning it I considered a dollar an acre sufficient.
Q. Referring to Bivins Section 197, where is that?
A. What?
Q. Referring to Bivins Section 197, where is that? Is that part of the Class C group?

A. Yes, that is Class C.

Q. Can you locate it on Exhibit 95, Mr. Wallace?

A. That is located south of the Panhandle field and six miles due north of the city of Amarillo. It is in A, B & M Survey, Block 2.

Q. Have there ever been any wells drilled on that acreage?

A. Not to my knowledge.

Q. Have there been any dry holes drilled in that acreage?

A. Not to my knowledge.

Q. Do you know whether anyone has ever taken into consideration the drilling of any hole on that acreage?

A. Not to my knowledge, no, sir.

MR. WALLACE further testified as follows: (Vol. LIII, pp. 7302-7311.)

Q. Now, Mr. Wallace, in connection with the preparation of this exhibit you stated that you did not give any consideration to any information with reference to the cost of this acreage to Canadian River Gas Company?

A. No, I did not.

Q. Nor the amount paid original lessors?

A. No.

Q. Either bonuses or delay rentals?

A. No, that doesn't reflect the value of the lease. As I described yesterday, the most prolific oil field in Kansas, at Eldorado, I leased most of that from the lease owner. It doesn't reflect the value of a lease and that is customary throughout the oil and gas fields.

Q. Regardless of what may have happened in those fields, in this particular instance and in your estimate of arriving at what you determined the market value of this acreage, you have also stated that you wouldn't be bound by what may be indicated as market value or any other value on any particular portion of this acreage unless you could take it all together?

A. That is one of the factors that do add value; that is, it is blocked as well as it is under consolidated contract, and the leases practically perpetuated. I didn't say I wouldn't give any value to it if it were not. If there were half of the acreage, it would have a value, but I wouldn't consider it as great a value as in its entirety.

Q. Let's take the Bivins lease. What value would you give that?

A. I haven't prepared a classification value under those conditions. The Bivins lease is divided, part of it being on the east side and part on the west side. I haven't given that study and I don't believe—

Mr. Keffer: You said part of the Bivins lease is on the east side and part of it is on the west side—

The Witness: The east side of the block and the west side of the block, Canadian River's blocked leases.

By Mr. Lange:

Q. You haven't given consideration to the time that Canadian River Gas Company acquired any of this acreage?

A. I don't believe I understand your question as to the time.

Q. You gave no consideration to the time element or as to the value at the time Canadian River acquired this acreage?

A. No. My present market value of leases is baesd as of this date, the date of the leases, and the present condition they are in.

Q. Now, the written statement that you have in your Exhibit 181 where you made your classification of acreage, and, going further, where you state (indicating Page 20):

"It is my opinion that if this acreage reserve were available it could unquestionably secure an outlet for its gas, exclusive of any pipe lines now in the field."

The price of $15,670,250.64 is corrected in your summary sheet which is now $15,664,787.64?

A. Reading that paragraph I would say it is my opinion if this acreage reserve were available, the company could unquestionably secure an outlet for its gas. It is my opinion that it could secure an outlet without any question. The value I have placed is not connected with this paragraph, but I would say if this reserve were available in its present condition I feel very confident I could sell the reserve for the value I have placed on it.

Q. To go back to your definition of the willing buyer, where would the market for the gas be?

A. There is quite an activity right now in the construc-

tion of gas lines. I have talked with executives of several oil companies who would like very much to get into the gas business. There is a market available in Wisconsin and there are several companies trying to get in there. There is also a market available in the territory of St. Louis. There is a market available now and there are many places where an outlet could be secured.

Q. You are then supposing the building of another transmission line to other markets?

A. If I had this acreage I could put it in hands that would build a transmission line.

Q. So your hypothetical buyer is subject to the hypothetical situation of building a pipe line up there and a hypothetical situation of getting a permit to build those lines and a hypothetical situation of getting those markets up there?

A. My business for many years was to find, create deals and interest people in the purchase of properties. I think I know pretty well the minds of purchasers and it is my opinion if this reserve were available to me in the condition it is in I could go and find people with capital that would be willing to—

Q. Let's take this hypothetical company that might be a prospective buyer. What would they have to show before they would part with this $15,600,000 some odd dollars?

Mr. Spencer: He hasn't said that the company was going to part with it.

Mr. Lange: He said that is what hey would pay for it.

Mr. Spencer: I thought you were talking about the pipe line company.

Mr. Lange: No, this mythical company that is going to buy the acreage.

The Witness: Would you read the question to me, please?

(The question referred to was read by the reporter as set forth above.)

The Witness: I don't think the question is clear. I don't know what you mean.

Mr. Lange: I will reframe the question.

Q. This prospective purchaser, what would they require of you to show them before they would want to part with that fifteen million and some odd dollars for this acreage?

A. They would require an examination of the leases, the terms of the leases, the location as to the leases of the accepted proven gas area, and they would probably employ engineers and geologists.

I have in several cases worked out deals and obtained options, and their engineers and geologists would check them up and substantiate the prices I put on them. I don't attempt to make any survey or estimate of gas reserves, but they undoubtedly employ engineers or geologists to do that.

Q. Before they would determine what they were going to do?

A. That is right.

Q. If you had such a deal in mind the company or the prospective purchaser—you enumerated some of the markets, didn't you?

A. I did enumerate some generally.

Q. They would have to first of all have a petroleum engineer's or geologist's estimate on it?

A I don't know whether they would have to or not.

Q. From your experience in connection with that work you feel pretty confident they would?

A. I think they would, yes, sir. However, this field has been so generally known and there have been so many figures of trillions of acres talked about in this field that—

Mr. Spencer: Trillions of what?

The Witness: Trillions of cubic feet of gas talked about.

—I think they would be well satisfied to option this acreage and have a report made as to the amount of profit they would make from it.

By Mr. Lange:

Q. You are talking about the amount of profit they would expect to make from it?

A. That they would expect to make from it.

Q. You mean from the operation of the marketing of such gas?

A. Whatever their program might be; whether it is a pipe line or marketing company, I wouldn't know.

Q. You don't know what their market would be or where they would expect to derive their profit?

A. Not in a hypothetical case, no.

Q. You think that prospective purchaser would want to know whether he was going to get his return before he wanted to part with ~~this $15,000,000~~?

A. I think so. The historical data shows that this property has produced some three hundred, eighty billion cubic feet or more and an examination of the wells on it now show over fifty per cent of the original open flow and well over fifty per cent of the original rock pressure.

In this value there is a big profit but I think they would employ engineers to try to estimate what it might be.

Q. You have taken into consideration that they would employ engineers before they would want to go into the deal?

A. I think so. I think any company would want to set up its estimate of return on investment.

Q. And they would want to know what the earning power of this field would be?

A. I think so.

Q. And they would want to know what market they could deliver to and what return they could make on that market?

A. I think so.

Q. Before there could be anything definitely accomplished on that, all of that would have to be pretty definite in the mind of the prospective purchasing company?

A. I think so.

Q. And do you know of any definite situation like that at the present that has come to the point of such a definite stage?

A. There has never been to my knowledge as large an accepted proven acreage under such lease conditions available to any one company.

The West Texas Panhandle field is very closely held by

the gas companies. There are no reserves that are unleased available now that would support a line to a distant market.

Q. Could you—.

A. Pardon me until I finish.

Q. Yes.

A. The Hugoton field is comparable to the Texas Panhandle in its area. Within the last year there have been a number of outside people attempting to secure adequate reserves in the Hugoton field. They have not been able to do so. In that field there is a total of unleased acreage, a large total amount, but it is held or owned almost entirely by small farmers. The land is divided into 160-acre tracts, the biggest majority of the field. There is only one or two large ranches in the field and they have not been able to secure a reserve that would support a pipe line, and I don't know of an example similar to what we are talking about.

Q. How close is that Hugoton producing area to the Texas Panhandle field?

A. That is a hard question to answer.

Q. Approximately.

A. Less than forty miles—perhaps twenty miles north of this field there are two wells in Sherman County, Texas. They show a similar rock pressure of both the Hugoton field and the Texas Panhandle field.

We don't know whether that is a part of the Texas Panhandle field or part of the Hugoton field. It is an opinion of many operators and engineers that the two fields may connect. We do not know that yet. The Hugoton field has not yet been defined to the north. Roughly estimating, I would say that the Hugoton field as defined now to the north or the farthest producing gas well is probably two hundred miles from this. It looks like one continuous area.

Q. The acreage in the Hugoton field is held by numerous land owners, ranchers, and so forth?

A. Yes.

Q. Do you place any value on that?

A. That is an entirely different problem than this situation here. Your field there will probably not recover the gas that this will, and as I say, there are isolated 160-acre tracts that do not carry much value lease by lease.

Q. These two wells that the acreage is located on, have you placed any value on that acreage?

A. I have never been to the acreage or the wells.

Q. What in your opinion is the value of it?

A. I don't know as I haven't been to them. I don't know the character of the wells and I have made no investigation of them. I merely know they are there by reports.

Q. You haven't taken into consideration in any of your studies the values of that acreage between the two fields?

A. None whatever.

* * * * *

MR. WALLACE further testified as follows: (Vol. LIII, pp. 7316-7324.)

By Mr. Lange:

Q. Referring back to your exhibit, Mr. Wallace, on Page 19 of the written statement you follow through on the matter of your character of classification of acreage and then you get down to the computation of field price for gas. On what basis do you arrive at this adopted price?

A. In many leases that I have examined I find that the lessors and lessees agreed and it is stipulated in the leases that four cents shall be the basis on which royalties will be paid. From division orders I have seen, and my general knowledge through the field, I think four cents per thousand is generally the adopted price.

Q. You wouldn't term that the market price?

A. I wouldn't know how to say the market price of gas. I know in some instances where the owners of gas wells are selling gas for three and a half cents a thousand under contracts for the life of the leases and paying the landowners on the basis of four cents a thousand, and I don't know what you would call the present market value of gas in the field.

Q. Very many leases don't have any fixed price in their—

A. Some of them have no fixed price whatever.

Mr. Keffer: What is the royalty on those leases?

The Witness: Four cents.

By Mr. Lange:

Q. The price of four cents is generally so fixed in the leases?

A. No, I think you will find more on the basis of four cents not fixed in the lease than you will find it at four cents fixed in the lease.

Q. That would be an agreed basis between the royalty owner and the lessee?

A. Yes, they are set out in the division orders.

Q. Then it is contractual?

A. It apparently is.

Q. If it is a subsequent contract or in the original lease it would be contractual?

A. I presume it would be.

Q. As an adopted price and not one that applies like a posted field price for oil?

A. No, I'm speaking of sweet gas here. I know nothing about sour gas.

Q. There is nothing such as a posted field price for gas?

A. I have never heard of it. I am certain there is not.

Q. Now, on that Page 19 you were then assuming further that such a prospective purchaser would proceed on a certain drilling program on which he could, as you say, receive his money back by doing certain things. What do you contemplate by the term "receiving their money back"?

A. Amortize their investment. I am trying to illustrate in the adoption of my classification just what it would cost after paying $125 per acre for your acreage and the cost of drilling the well, just approximately how much you would have to recover to amortize this investment, the purchase of the lease, the cost of the well, the operation of the well and the paying of the royalties, purely as an example.

Q. How would you know how many wells would have to be drilled?

A. I don't know how many would have to or not have to. In my judgment I have selected one well to two sections and this example is merely to show what it would be on two sections of land—one well to two sections.

Q. You don't mean to say that there would be a well on every two sections of the whole acreage?

A. There may be, I don't know.

Q. Would you contemplate such a procedure?

A. If market conditions warranted, they might want to do that. It is purely an operating problem and I don't know.

Q. What did you have in mind as to what the prospective purchaser would have to do in connection with the acquiring of this acreage when you said that he would drill a well to every 1800 acres on this Class A?

Mr. Keffer: You say 1800?

Mr. Lange: 1280 acres. That is still more wells.

The Witness: No, this problem is not the number of wells that would be drilled on it. I am merely trying to show in my judgment what would possibly be the density of drilling in that large area, blocked as it is, and I am trying to show, which I would illustrate to a prospective purchaser if I could, what he would be expected to recover to amortize his investment. He might drill one well or might drill them all. It would all depend on what his problem is. We are speaking of a hypothetical case.

Q. He would have to have a certain market to work out such an amortization program, wouldn't he?

A. Not on one well.

Q. I mean if he acquired this acreage on the basis of the value as you have fixed, for a total cost of fifteen million dollars plus, he would have a pretty high fixed charge right there to start off?

A. Well, he probably would have to recover, I would say, about five hundred billion cubic feet and not knowing the number of cubic feet recoverable from this—but I hear it stated that there are several trillions, I don't know.

Q. You don't know?

A. No, I don't know, but I hear, there is gossip that the field as a whole has many trillions of feet.

Q. I believe you stated yesterday very distinctly and definitely several times that you made no estimate and did not take into consideration any reserve under this.

A. I certainly did under my classification of market value of leases.

Q. Now, this prospective purchaser would have to have

a pretty definite market located and defined before he could close a deal of this kind?

A. I don't think there would be any trouble if you had the reserve to go find the market. People are finding markets but they are having difficulty in finding reserves at the present time.

Q. You think that the difficulty as to the market would be a minor matter?

A. I don't think it would be nearly so difficult as to acquire a reserve comparable to this one we are speaking of.

Q. Where in your picture would the market fit as to the difficulty factor?

A. I don't understand that question.

Q. How did you approach the problem or did you take that into consideration at all as to what difficulty factor there might be with reference to having a market?

The Trial Examiner: Now, Mr. Lange, I wonder if you aren't going a little beyond what Mr. Wallace, as I understand, contemplates here? He contemplates that there is no pipe line extending out of there.

Mr. Lange: That's right.

The Trial Examiner: On the price of that acreage.

Mr. Lange: Yes, but he contemplates finding a prospective purchaser who is going to project such a pipe line, build it and find a market, and all of that would be in the picture.

Mr. Spencer: No, I don't believe he testified to that. The purchaser of this gas might never do anything but produce. The pipe line might come to him and he hasn't said that the purchaser of this acreage would build any pipe line or need to find markets. He says that the purchaser here has a better mouse trap. The world is going to beat a path to his door.

Mr. Lange: No, he had a different kind of a trap there.

The Trial Examiner: The point I had, Mr. Lange, is that I thought you were inferring from your questioning that there was some other factor besides those markets already being served out of that field.

Mr. Lange: Mr. Examiner, this is what I was really pursuing: The witness said that if the sale were made, it was exclusive of any lines—"In my opinion if this acreage were available, unquestionably they could secure an outlet for its gas exclusive of any pipe line." I asked the witness as to who the possible purchaser would be and he had several. He said several in existence are known to him who had contemplated markets outside of the state of Texas. Well, that would necessarily assume the building of a line to those markets because he had already excluded these. I was tracing that to see what certainty, if any, there were to those, as to the probability of them materializing.

The Trial Examiner: So that might include markets already served or new markets?

Mr. Lange: Yes.

Q. What consideration did you give that—did you pursue that investigation any?

A. I did not. My consideration to this—and I think my statement is clear there—that anyone purchasing this reserve in the condition it is in, generally accepted as a proven area, could and would create a market for the gas. I don't mean that they would build pipe lines. They might produce or they might build pipe lines. There are many pipe lines being talked about. I don't know.

Q. They excluded those presently serving—

A. I have excluded those.

Q. And you are also certain—or, rather, testimony here is that the gas would be transported out of the state and that would necessitate the building of a line in order to get the gas out?

A. That's right.

Q. Because that is the only way you can transport gas?

A. That's right.

Q. You can transport oil by tank wagon, but not gas?

A. Not unless you liquefy it.

Q. And there is too much there to liquefy?

A. I'm afraid so.

Q. And you made no investigation with reference to what those probable markets would require?

A. Not in connection with this valuation report at all.
Q. Nor what might be in the picture on that?
A. Not in connection with this valuation.

* * * * * *

Mr. Wallace further testified: (Vol. LIII, pp. 7326-7327.)

Q. You have had occasion to be pretty familiar with operations in the Hugoton area?

A. I haven't had occasion to be really familiar. I have merely known of the field generally. As I say, I joined this company on the first of October and I was sent east for nine weeks and just within the last three weeks have I devoted my time to the producing problems within the field.

Q. But you do know and have had occasion heretofore to know what some of the problems in that field were?

A. Generally, some of them, yes.

Q. And one of the big problems in that field was lack of markets for gas?

A. That's right. In the Kansas portion, 14 wells are unconnected that have not been able to secure markets.

Q. Capable of producing gas in commercial quantities?

A. Yes. The average is as good as any other wells in the field.

Mr. Spencer: What is the size of the leases on which those wells are located?

The Witness: I believe every lease is on a 160-acre tract and they are widely scattered. There may be some on 640. I am not certain.

Mr. Keffer: How many connected wells are there in the field as compared with those unconnected?

The Witness: We have 118 wells connected. The Panhandle Eastern Pipe Line Company have over a hundred wells connected. These are approximate figures I am giving you. The Stevens County Oil & Gas Company have probably 20-some wells connected. Sidwell Estate have eight or nine wells connected and there are others I don't know.

Mr. Keffer: Well, that's near enough. The proportion of unconnected wells is very very slight.

The Witness: Very slight.

Mr. Wallace was then interrogated concerning a number of specific leases included in his different valuations. (Vol. LIII, pp. 7332, et seq.) His compensation for work in connection with this exhibit is at the rate of $65 a day and expenses. (Vol. LIII, p. 7342.)

On redirect examination (Vol. LIII, pp. 7344, et seq.) Mr. Wallace stated that while he had testified that he had given no consideration to any geological report, he had made a study of each well individually, and had made a trip to each well. He talked to the Canadian Superintendent, took the records of the original open flow, the original rock pressure, the total amount of gas marketed from each well and the log of the well. He examined these and then discussed with the Superintendent any unusual mechanical conditions that might be in the wells that would influence his judgment and then based his opinion on all of that, and all this was the basis of his opinion as to whether there was a good gas reserve, a poor one or just a mediocre one. (Vol. LIII, p. 7345.) He would rather have the historical data as to a well than a geologist's estimate made before the well was ever drilled as to what it was going to do. A geologist is not needed to tell you what a certain well's rock pressure and open flow is and what it has produced in the past. He has taken the actual factual data on these wells after they were drilled. The Canadian wells are scattered pretty well over the leases and give every good index as to the total acreage. (Vol. LIII, p. 7346.) He relied upon the Railroad Commission of Texas for the general outline of the producing area which is generally accepted.

On the basis of Mr. Hammer's testimony of 3,600,000,000,000 cubic feet of recoverable gas in the Canadian acreage its value at 4c per thousand cubic feet would be $144,000,000. Assuming that only one-third of this would be recovered and the other two-thirds lost by drainage, the value of the one-third recovered would be $48,000,000, as compared with his present value of $15,000,000 for the Canadian acreage. (Vol. LIII, pp. 7348, 7349.) It has been Mr. Wallace's experience in gas fields generally and almost without exception that the price of gas advances as the fields become older. (Vol. LIII, p. 7350.)

The largest purchase of acreage Mr. Wallace knows of in the Texas Panhandle Field was made by the Texoma Na-

tural Gas Company along about 1930 or 1931. This involved something in excess of 300,000 acres and the purchase price was in excess of $15,000,000. That acreage was not as well blocked as the ~~Canadian acreage~~ and at the time of purchase the field was not defined, or at least the producing area was not well defined, and in making the purchase the Texoma Company had to take lots of bad acreage with good acreage and in order to get its block it had to take a lot of acreage which was subsequently released. The consideration paid was $40 or $45 per acre straight through, regardless of where it was or what it was, and approximately half of the acreage originally purchased has been discarded. (Vol. LIII, pp. 7351, 7352.)

With further reference to the Texoma purchase referred to above MR. WALLACE testified as follows: (Vol. LIII, Official Transcript, pp. 7354-7358.)

Q. You referred to this Texoma deal for this acreage, Mr. Wallace?

A. Yes, I did.

Q. That took place in 1928, you say?

A. I don't remember the date.

Mr. Keffer: No, he didn't say that.

Mr. Lange: What year was it?

Mr. Keffer: He said around 1930 or 1931. At least I asked the question in that form.

Mr. Lange: That's right.

Q. Then it was 1930 or 1931?

A. Yes.

Q. Do you know the circumstances and facts in connection with that deal?

A. No, I don't know.

Q. Do you know whether the sale was an arm's length sale as coming within your willing buyer and purchaser, as dealing separately and apart without any connection with each other?

A. I don't know the term "arm's length." I was not present and I couldn't answer that question.

Q. Who were the owners of the acreage, the leases, or the assignees of the acreage?

A. Well, the Phillips Petroleum Company, Skelly Oil Company, there was Cities Service Oil Company, there was a purchase made through some of the Insull Companies. There was Magnolia. I don't know any more. I am not certain I am correct on all of those, for that matter.

Q. All right, all of these companies that owned these acreage—or were assignees of it, have stock in Texoma, haven't they?

A. I don't know.

Q. What consideration did they receive for that, or what was the trade?

A. Well, the trade, as I understand it, or, the sale, as I understand it, was $40 or $45 an acre straight through, same price.

Q. What was the maximum amount paid for the acreage?

A. If my memory serves me, it was in excess of $15,000,-000.

Q. I mean per acre.

A. $40 or $45 per acre. Now, this is hearsay and memory.

Q. You testified, though, that this was an acreage that you wanted to point out. Do you know what the character of that acreage was as compared with Canadian River's?

A. Yes. You couldn't put it in the same class. Canadian River is much better acreage as a whole than Texoma as a whole.

Q. All right. Now, what was the valuation that you placed on any of that acreage?

A. What do you mean by "any of that"?

Q. Well, are you sufficiently familiar with that acreage to make any comparison?

A. Of the entire Texoma acreage?

Q. The acreage owned by these separate leases.

The Trial Examiner: It isn't clear, Mr. Lange.

By Mr. Lange:

Q. Are you familiar with the acreage owned in each of these leases that went into that deal?

A. No, I am not.

The Trial Examiner: You mean went into the Texoma deal?

Mr. Lange: That is right.

The Witness: No, I am not.

By Mr. Lange:

Q. Do you know whether any of that acreage was as good as Canadian River's acreage?

A. I would have to refer to my map which is a very old map and to a present map of Texoma to know whether they are retaining any of that same acreage or not. I don't know that and couldn't so testify.

Q. Would any of that acreage be classified as A1?

A. I would say Texoma's acreage as now held is classified, some of it, as A1 acreage.

Q. And you state you didn't know any other circumstances on this deal as to what the formation was of that?

A. No, I know nothing about that.

Mr. Lange: I think that is all for the present.

The Trial Examiner: Mr. Wallace, this figure you mentioned, or the multiplication you made for Mr. Keffer as to the value of that—or alleged value of that gas in the ground, in excess of some $100,000,000, you don't as a broker feel that you could secure a purchaser for this particular acreage for any such sum?

The Witness: Well, if I could price it to him at $15,000,000 and show him that there is $140,000,000—

The Trial Examiner: For the $15,000,000?

The Witness: Yes.

The Trial Examiner: Not for the $140,000,000?

The Witness. No. I was talking of gross figures, with no construction costs taken out.

The Trial Examiner: Or for the one-third he mentioned might be recovered?

The Witness: I don't believe so.

Exhibit 181 by R. J. Wallace contains the following detailed data with respect to the various leases valued by him and owned, as to the gas rights, by Canadian:

Lease No. 1:

Date, June 27, 1932. Term, 5 years. Lessor, August Blissenbach and wife. Lessee, Amarillo Oil Company. Potter County. 160 acres. Consolidated with Leases numbers 66 and 68.

This lease has been perpetuated by consolidation with lease numbered 68. It is located in an area of high productivity and rock pressures over 400 lbs.

Class, A-2. Value, $16,000.00.

Lease No. 2:

Date, June 15, 1932. Term, Perpetual. Lessor, J. T. Sneed, Jr., and wife. Lessee, Amarillo Oil Company. Moore County. 640 acres.

This lease is separated from other leases. It is in a high gas potential area with pressures from 280 to 320 lbs. Was given as a perpetual lease. Adjoining lease-holders have withdrawals comparable to Canadian River Gas Company.

Class, A-2. Value, $64,000.00.

Lease No. 6:

Date, June 26, 1923. Term, 6 years. Lessor, J. T. Sneed, Jr., and wife. Lessee, Producers & Refiners Corporation. Moore County. 5,440 acres.

Wells drilled on this Lease:

Well No.	Date Completed	Initial Open Flow Mcf.	Initial Rock Pressure Mcf.	Present Open Flow Mcf.	Present Rock Pressure	Production Mcf. to Date
A-1	5/26/28	40,500	426	25,780	378	6,061,295
A-2	7/26/39	43,459	388	39,885	388	137,044

This lease is in one of the highest and richest gas potential areas with Rock pressures from 380 to 400 lbs. Blocked with other leases.

Class, A-1. Value $680,000.00

Lease No. 9:

Date, July 16, 1923. Term, 5 years. Lessor, D. P. Seay; Lessee, Producers & Refiners Corporation. Moore & Potter Counties. 540 acres.

Well drilled on this Lease:

Well No.	Date Completed	Initial Open Flow Mcf.	Initial Rock Pressure Mcf.	Present Open Flow Mcf.	Present Rock Pressure	Production Mcf. to Date
A-1	5/13/28	14,000	426	8,669	403	894,290

This lease is well blocked with other leases. It is in a 10 to 20 million cu. ft. potential area with rock pressures from 380 to 400 lbs.

Class, A-2. Value, $54,000.00.

Lease No. 19:

Date, August 19, 1938. Term, 10 years. Lessor, Rhetta W. Miller and husband. Lessee, Amarillo Oil Company. Moore County. 212.5 acres.

This lease is well blocked in a 20 to 30 million cu. ft. potential area with rock pressure of 400 lbs.

Class, A-2. Value, $21,250.00.

Lease No. 21:

Date, July 30, 1923. Term, 5 years. Lessor, Terry Thompson and wife. Lessee, Producers and Refiners Corporation. Moore County. 7,603.8 acres.

Wells drilled on this Lease:

Well No.	Date Completed	Initial Open Flow Mcf.	Initial Rock Pressure Mcf.	Present Open Flow Mcf.	Present Rock Pressure	Production Mcf. to Date
B-1	7/27/28	2,600	392	3,195	362	1,848,937
B-2	4/27/36	53,120	407	30,913	356	3,835,196
B-3	9/3/40	70,355	368	70,355	368	None

This lease is in one of the highest potential producing areas with rock pressure of 370 lbs.

Class A-1	6,189.80	Acres,	Value,	$773,725.00
" A-3	640.00	"	"	48,000.00
" B-1	774.00	"	"	38,700.00
			Total,	$860,425.00

Lease No. 28:

Date, July 30, 1923. Te[illegible] 5 years. Lessor, L. H. Crawford, et al. Lessee, Producers & Refiners Corporation. Moore and Potter Counties. 1,440 acres.
Well drilled on this Lease:

Well No.	Date Completed	Initial Open Flow Mcf.	Initial Rock Pressure Mcf.	Present Open Flow Mcf.	Present Rock Pressure	Production Mcf. to Date
A-1	6/29/28	12,500	421	10,213	404	1,928,974

This lease is well blocked with other leases in an area of 20 to 40 million cu. ft. potential with rock pressures from 380 to 400 lbs.

Class	A-1	480	Acres, Value,		$60,000.00
"	A-2	800	"	"	80,000.00
"	A-3	160	"	"	12,000.00
				Total,	$152,000.00

Lease No. 29:

Date, June 5, 1923. Term, 5 years. Lessor, E. S. Poling. Lessee, Margie Edgar. Carson County. 80 acres.
Well drilled on this Lease:

Well No.	Date Completed	Initial Open Flow Mcf.	Initial Rock Pressure Mcf.	Present Open Flow Mcf.	Present Rock Pressure	Production Mcf. to Date
A-1	5/5/28	20,000	424	11,679	353	2,846,910

This lease, although in a high producing potential area, has been drilled to close density and pressures are declining more rapidly than other areas.

Class, B-1. Value, $4,000.00.

Lease No. 47:

Date, August 19, 1938. Term, 10 years. Lessor, Nellie Mae Cooper. Lessee, Amarillo Oil Company. Moore County. 212.5 acres.

This lease is well blocked in a 20 to 30 million cu. ft. potential area with rock pressure of 400 lbs.

Class, A-2. Value, $21,250.00.

Lease No. 57:

Date, February 27, 1920. Term, Prod. Lessor, Mrs. J. C. Warrick. Lessee, Amarillo Oil Company. Moore, Potter, Carson and Hutchinson Counties. 2,400 acres.
Wells drilled on this Lease:

Well No.	Date Completed	Initial Open Flow Mcf.	Initial Rock Pressure Mcf.	Present Open Flow Mcf.	Present Rock Pressure	Production Mcf. to Date
A-1	5/7/25	60,000	435	58,747	365	3,881,874
A-2	7/27/29	78,000	416	61,627	353	2,925,736

This lease is in a very high productive area but has been drilled to close density and the rock pressures are declining more rapidly than in other areas.

Class, B-1. Value, $120,000.00.

Lease No. 60:

Date, February 6, 1925. Term, 5 years. Lessor, R. O. Allison, and wife. Lessee, Amarillo Oil Company. Potter County. 100 acres.

Well drilled on this Lease:

Well No.	Date Completed	Initial Open Flow Mcf.	Initial Rock Pressure Mcf.	Present Open Flow Mcf.	Present Rock Pressure	Production Mcf. to Date
A-1	12/12/29	33,000	416	23,211	366	801,726

This lease is in a high potential producing area but has been drilled to close density and the rock pressures are declining more rapidly than in other areas.

Class, B-1. Value, $5,000.00.

Lease No. 61:

Date, February 10, 1926. Term, 5 years. Lessor, Dave N. McBride. Lessee, Amarillo Oil Company. Potter County. 640 acres.

Well drilled on this lease:

Well No.	Date Completed	Initial Open Flow Mcf.	Initial Rock Pressure Mcf.	Present Open Flow Mcf.	Present Rock Pressure	Production Mcf. to Date
A-1	11/4/30	47,400	429	41,468	387	955,972

This lease is in a high productive area and well blocked with other leases, with rock pressure from 340 to 360 lbs. but might be subjected to offsetting on River bed lease.

Class, A-3. Value, $48,000.00.

Lease No. 63:

Date, Oct. 25, 1934, effective Dec. 8, 1935. Term, 10 years. Lessor, Nettie L. Baker. Lessee, Amarillo Oil Company. Moore and Potter Counties. 583 acres.

This lease is well blocked with other leases and not subjected to drainage of other companies. It is in a pressure area of 400 lbs.

Class, A-2. Value, $58,300.00.

Lease No. 64:

Date, April 21, 1926. Term, 5 years. Lessor, Mrs. Elizabeth Crawford et al. Lessee, Amarillo Oil Company. Potter County. 1,453.04 acres.

Well drilled on this Lease:

Well No.	Date Completed	Initial Open Flow Mcf.	Initial Rock Pressure Mcf.	Present Open Flow Mcf.	Present Rock Pressure	Production Mcf. to Date
B-1	5/18/31	14,800	423	8,981	412	1,527,681

This lease is well blocked with other leases in a potential area of 10 to 20 million cu. ft., with rock pressures from 380 to 400 lbs.

Class, A-2	667.14	Acres,	Value,	$ 66,714.00
" A-3	785.90	"	"	58,942.50
			Total,	$125,656.50

Lease No. 66:

Date, Oct. 1, 1926. Term, 10 years. Lessor, Vernard S. Gary, as Attorney in fact. Lessee, Amarillo Oil Company. Potter County. 320 acres. Consolidated with Leases numbers 1 and 68.

This lease is well blocked with other leases in a 20 to 30 million cu. ft. area with rock pressures from 380 to 400 lbs.

Class, A-2. Value, $32,000.00.

Lease No. 67:

Date, May 31, 1920. Term, 5 years. Lessor, Georgie E. Thompson and husband. Lessee, T. E. Durham. Moore County. 3,840 acres.

Wells drilled on this Lease:

Well No.	Date Completed	Initial Open Flow Mcf.	Initial Rock Pressure Mcf.	Present Open Flow Mcf.	Present Rock Pressure	Production Mcf. to Date
A-1	12/1/21	75,000	432	67,524	367	3,436,376
A-2	4/8/26	90,000	432	74,602	372	2,116,526
A-3	4/19/40	39,592	371	39,592	371	None

This lease is in a very high potential area with rock pressure of 380 lbs.

Class A-1. Value, $480,000.00.

Lease No. 68:

Date, September 26, 1932. Term, 5 years. Lessor, T. M. Coughlan and wife, and Edward J. Coughlan. Lessee, Amarillo Oil Company. Potter County. 480 acres. Consolidated with Leases numbers 1 and 66

Wells drilled on this Lease:

Well No.	Date Completed	Initial Open Flow Mcf.	Initial Rock Pressure Mcf.	Present Open Flow Mcf.	Present Rock Pressure	Production Mcf. to Date
A-1	12/26/36	20,183	417	12,984	412	551,000
A-1 B.H.				4,681	413	

This lease in a 15 to 20 million cu. ft. potential area with rock pressures of over 400 lbs.

Class, A-2. Value, $48,000.00.

Lease No. 69:

Date, July 6, 1927. Term, 10 years. Lessor, C. L. Killgore, and wife. Lessee, The Prairie Oil & Gas Company. Moore County. 9,705.7 acres. Consolidated with Lease number 136.

Wells drilled on this Lease:

Well No.	Date Completed	Initial Open Flow Mcf.	Initial Rock Pressure Mcf.	Present Open Flow Mcf.	Present Rock Pressure	Production Mcf. to Date
A-1	5/27/29	36,354	423	19,551	384	3,711,051
A-2	5/26/37	25,360	405	15,437	390	2,724,541
A-3	11/20/39	8,575	369	9,003	369	None.

This lease is mostly in high potential area with rock pressures from 380 to 400 lbs.

Class, A-1,	6,293.7 acres	Value	$786,712.50
" A-2,	3,412 "	"	341,200.00
		Total,	$1,127,912.50

Lease No. 70:

Date, July 21, 1938. Term, 5 years. Lessor, J. M. Crawford and wife. Lessee, Amarillo Oil Company. Moore and Potter Counties. 815.8 acres.

This lease is well blocked with other leases. It is in a 10 to 20 million cu. ft. area with rock pressures from 380 to 400 lbs.

Class A-1,	160 acres	Value	$20,000.00
" A-2,	655.8 "	"	65,580.00
		Total	$85,580.00

Lease No. 72:

Date, January 31, 1939. Term, 10 years. Lessor, Merton H. Gage, et al. Lessee, Amarillo Oil Company. Potter County. 320 acres.

This lease is well blocked with other leases in a potential area of 10 to 20 million cu. ft., with rock pressures from 380 to 400 lbs.

Class, A-2. Value, $32,000.00.

Lease No. 73;

Date, August 23, 1937. Term, 10 years. Lessor, Myra Bradley and husband. Lessee, Amarillo Oil Company. Potter County. 320 acres.

This lease is well blocked with other leases in a fairly high producing area with rock pressures to 400 lbs.

Class, A-2. Value, $32,000.00.

Lease No. 80:

Date, August 19, 1938. Term 10 years. Lessor, Mrs. Mary S. Cooper. Lessee, Amarillo Oil Company. Moore County. 255 acres.

This lease is well blocked in a 20 to 30 million cu. ft area with rock pressure of 400 lbs.

Class, A-2. Value, $25,500.00.

Lease No. 81:

Date, March 6, 1928. Term, perpetual. Lessor, N. H Read. Lessee, Amarillo Oil Company. Moore County 4,296.9 acres.

Wells drilled on this Lease:

Well No.	Date Completed	Initial Open Flow Mcf.	Initial Rock Pressure Mcf	Present Open Flow Mcf.	Present Rock Pressure	Production Mcf. to Date
A-1	10/28/29	15,500	408	11,788	370	2,726,117
A-2	9/30/37	56,640	386	58,747	375	227,173

This lease is in a high producing area, is well blocked with other leases, and has rock pressure of 360 lbs.

Class, A-1. Value, $537,112.50.

Lease No. 84:

Date, July 27, 1933. Term, 10 years. Lessor, W. F. Crawford, et al. Lessee Amarillo Oil Company. Potter and Moore Counties. 1147.69 acres.

This lease is well blocked with other leases. It is in a high potential area with rock pressures from 380 to 400 lbs

Class A-1	325.29 acres.	Value,		$40,661.25
" A-2	507.10	"	"	50,710.00
" A-3	315.30	"	"	23,647.50
			Total,	$115,018.75

Lease No. 86:

Date June 1, 1926. Term, 10 years. Lessor, J. T. Sneed, Jr. Lessee Masters Oil & Gas Company. Moore County. 2,777 acres.

Well drilled on this Lease:

Well No.	Date Completed	Initial Open Flow Mcf.	Initial Rock Pressure Mcf.	Present Open Flow Mcf.	Present Rock Pressure	Production Mcf. to Date
B-1	2/16/27	60,000	435	27,960	381	3,631,916

This lease is well blocked with other leases and is in one of the highest gas potential areas, with rock pressures from 360 to 380 lbs.

Class, A-1. Value, $347,125.00.

Lease No. 90:

Date, February 17, 1932. Term, perpetual. Lessor, Georgie E. Thompson and husband. Lessee, Canadian River Gas Company. Moore County. 337.3 acres.

This lease is well blocked with other leases and is in a high potential area with rock pressure of 380 lbs.

Class, A-1. Value, $42,162.50.

Lease No. 92:

Date, August 8, 1925. Term, 5 years. Lessor, E. B. Johnson, et al. Lessee, The Pure Oil Company. Hutchinson County. 800 acres.

Well drilled on this Lease:

Well No.	Date Completed	Initial Open Flow Mcf.	Initial Rock Pressure Mcf.	Present Open Flow Mcf.	Present Rock Pressure	Production Mcf. to Date
A-1	5/10/24	8,000	412	4,924	312	2,449,552

This lease is situated in a very high gas potential area but has been drilled to close density and the rock pressures are declining more rapidly than in other areas.

Class, B-1. Value $40,000.00.

Lease No. 95:

Date, February 26, 1923. Term, 5 years. Lessor, J. M. Sanford. Lessee, The Pure Oil Company. Carson County 3,040 acres.

Well drilled on this Lease:

Well No.	Date Completed	Initial Open Flow Mcf.	Initial Rock Pressure Mcf.	Present Open Flow Mcf.	Present Rock Pressure	Production Mcf. to Date
A-1	1/15/24	75,000	422	67,905	371	4,195,222

This lease is located in a very high potential area. Although it is not well blocked with leases of Canadian River, it is surrounded by holdings of other gas pipeline companies whose withdrawals are governed the same as Canadian River.

Class, A-2, 2,560 acres. Value	$256,000.00
" B-2, 480 acres, value	12,000.00
Total	$268,000.00

Lease No. 107:

Date, July 15, 1924. Term, 5 years, after 1/25/25. Lessor J. T. Sneed, Jr. Lessee, The Prairie Oil & Gas Company. Moore County. 640 acres.

Well drilled on this Lease:

Well No.	Date Completed	Initial Open Flow Mcf.	Initial Rock Pressure Mcf.	Present Open Flow Mcf.	Present Rock Pressure	Production Mcf. to Date
C-1	4/8/30	24,000	426	11,545	386	705,451

This lease is blocked with other leases and is in one of the highest potential areas, with rock pressures from 360 to 380 lbs.

Class, A-1. Value, $80,000.00.

Lease No. 108:

Date, March 18, 1926. Term, 10 years. Lessor, J. T. Sneed, Jr. Lessee, Fred S. Cook. Moore County, 640 acres.

Well drilled on this Lease:

Well No.	Date Completed	Initial Open Flow Mcf.	Initial Rock Pressure. Mcf.	Present Open Flow Mcf.	Present Rock Pressure	Production Mcf. to Date
D-1	6-22	5,650	423	6,077	378	997,016

This lease is blocked with other leases and is in one of the highest potential areas with rock pressures from 360 to 380 lbs.

Class, A-1. Value, $80,000.00.

Lease No. 114:

Date, January 14, 1928. Term, 5 years. Lessor, Mattie V. Dunaway. Lessee, J. S. Harris and W. J. McKinney. Hutchinson County. 320 acres.

Wells drilled on this Lease:

Well No.	Date Completed	Initial Open Flow Mcf.	Initial Rock Pressure Mcf.	Present Open Flow Mcf.	Present Rock Pressure	Production Mcf. to Date
A-1	9/15/28	75,000		28,477	334	1,455,829
A-2	10/18/32	33,000	370	20,616	324	214,920

This lease is situated in a very high gas potential area, but it has been drilled to close density and the rock pressures are declining more rapidly than in other areas.

Class, B-1. Value, $16,000.00.

Lease No. 116:

Date, June 11, 1923. Term, 5 years. Lessor, John Q. Bost. Lessee, Margie Edgar. Hutchinson County. 40 acres.

Well drilled on this Lease:

Well No.	Date Completed	Initial Open Flow Mcf.	Initial Rock Pressure Mcf.	Present Open Flow Mcf.	Present Rock Pressure	Production Mcf. to Date
A-1	5/30/28	25,000	405	20,977	334	1,538,863

~~This lease is~~ situated in a very high gas potential area, but has been drilled to close density and rock pressures are declining more rapidly than in other areas.

Class, B-1. Value, $2,000.00.

Lease No. 117:

Date, June 7, 1923. Term, 5 years. Lessor, John Q. Bost and wife. Lessee, Margie Edgar. Hutchinson County. 360 acres.

Well drilled on this Lease:

Well No.	Date Completed	Initial Open Flow Mcf.	Initial Rock Pressure Mcf.	Present Open Flow Mcf.	Present Rock Pressure	Production Mcf. to Date
B-1	7/20/28	20,000	407	4,687	341	1,128,561

This lease is situated in a very high gas potential area, but has been drilled to close density and rock pressures are declining more rapidly than in other areas.

Class, B-1. Value $18,000.00.

Lease No. 118:

Date, October 4, 1930. Term, 1 year. Lessor, Mattie V. Dunaway, et al. Lessee, Amarillo Oil Company. Hutchinson County. 160 acres.

Well drilled on this Lease:

Well No.	Date Completed	Initial Open Flow Mcf.	Initial Rock Pressure Mcf.	Present Open Flow Mcf.	Present Rock Pressure	Production Mcf. to Date
B-1	3/24/31	37,200	371	16,499	307	615,246

This lease is situated in a very high gas potential area, but has been drilled to close density and the rock pressures are declining more rapidly than in other areas.

Class, B-1. Value $8,000.00.

Lease No. 119:

Date, August 25, 1927. Term, 10 years. Lessor, John Q. Bost, et al. Lessee, C. F. Lehman. Hutchinson and Carson Counties. 640 acres.

Wells Drilled on this Lease:

Well No.	Date Completed	Initial Open Flow Mcf.	Initial Rock Pressure Mcf.	Present Open Flow Mcf.	Present Rock Pressure	Production Mcf. to Date
C-1	6/6/31	25,000	407	11,164	342	1,136,623
C-2	10/21/31	24,000	397	18,119	350	885,570

This lease is situated in a very high gas potential area, but has been drilled to close density and the rock pressures are declining more rapidly than in other areas.

Class, B-1. Value $32,000.00.

Lease No. 120:

Date, August 25, 1927. Term, 10 years. Lessor, John Q. Bost, et al. Lessee, C. F. Lehman. Hutchinson and Carson Counties. 640 acres.

Well drilled on this Lease:

Well No.	Date Completed	Initial Open Flow Mcf.	Initial Rock Pressure Mcf.	Present Open Flow Mcf.	Present Rock Pressure	Production Mcf. to Date
D-1	9/2/30	17,000	406	8,550	341	671,304

This lease is in a high gas potential area, but has been drilled to close density and the rock pressures are declining more rapidly than in other areas.

Class, B-1. Value, $32,000.00.

Lease No. 125:

Date, May 23, 1928. Lessee, Canadian River Gas Company Fee. Moore and Potter Counties. 3,827.8 acres.
Well drilled on this Lease:

Well No.	Date Completed	Initial Open Flow Mcf.	Initial Rock Pressure Mcf.	Present Open Flow Mcf.	Present Rock Pressure	Production Mcf. to Date
A-1	11/11/29	38,000	425	26,796	369	2,918,364

The Canadian River Gas Company owns the mineral rights in fee, having purchased the minerals in fee after the execution of the lease. It is well blocked with other leases and is in a high potential area.

Class, A-1. Value, $478,475.00.

Lease No. 136:

Date, January 5, 1925. Term, 7 years. Lessor, C. L. Killgore and wife. Lessee, Gulf Production Company. Moore County. 165.25 acres. Consolidated with Lease number 69.

Well drilled on this Lease:

Well No.	Date Completed	Initial Open Flow Mcf.	Initial Rock Pressure Mcf.	Present Open Flow Mcf.	Present Rock Pressure	Production Mcf. to Date
B-1	6/14/30	13,000	425	4,687	404	1,249,440

This lease is a part of the Killgore lands which are in a large gas potential area and well blocked with other leases with rock pressure of over 400 lbs.

Class, A-1. Value, $20,656.25.

Lease No. 137:

Date, Dec. 1, 1939. Term, 10 years. Date effective Dec. 9, 1939. Lessor, John C. Johnson, et al. Lessee, Amarillo Oil Company. Moore County. 336.7 acres.

This lease is well blocked with other leases and is in a high potential area with rock pressures of about 400 lbs.

Class, A-1. Value, $42,087.50.

Lease No. 139:

Date, January 26, 1939. Term, 5 years. Lessor, Anna Lubberstedt, and husband. Lessee, Amarillo Oil Company. Moore County. 168.35 acres.

This lease is well blocked with other leases in a high potential gas area with rock pressures of about 400 lbs.

Class, A-1. Value, $21,043.75.

Lease No. 140:

Date, December 1, 1939. Term, 10 years. Lessor, William E. C. Curtis. Lessee, Texoma Natural Gas Company. Moore County. 160.00 acres.

This lease is well blocked with other leases in a high potential gas area and has rock pressures of about 400 lbs.

Class, A-1. Value, $20,000.00.

Lease No. 18 "B":

Date, July 18, 1923. Term, 5 years. Lessor, Lee Bivins. Lessee, Producers & Refiners Corporation. Hutchinson, Carson, Potter and Moore Counties. 2,240 acres. Consolidated into "A" Lease.

Wells drilled on this Lease:

Well No.	Date Completed	Initial Open Flow Mcf.	Initial Rock Pressure Mcf.	Present Open Flow Mcf.	Present Rock Pressure	Production Mcf. to Date
B-1	3/18/24	76,080	435	34,327	349	10,932,008
B-2	6/11/25	40,000	435	39,147	308	5,801,451
B-3	4/26/26	70,000	435	30,813	350	11,272,151
B-4	8/28/26	70,000	435	43,578	344	9,178,858
B-5	3/16/27	70,000	410	16,259	243	2,941,033
B-6	9/16/27	70,000	426	37,231	336	10,590,641

This lease consolidated under terms of "A" Lease and Consolidation Revisions.

Class	B-1, 960 acres	Value	$48,000.00
"	B-2, 1,280 "	"	32,000.00
		Total,	$80,000.00

Lease No. 22 "E":

Date, August 1, 1923. Term, 5 years. Lessor, Lee Bivins. Lessee, Producers and Refiners Corporation. Potter and Carson Counties. 3,538.5 acres. Consolidated into "A" Lease.

Well drilled on this Lease:

Well No.	Date Completed	Initial Open Flow Mcf.	Initial Rock Pressure Mcf.	Present Open Flow Mcf.	Present Rock Pressure	Production Mcf. to Date
E-1	7/7/28	36,000	426	28,725	413	3,260,896

This lease is consolidated under terms of "A" Lease and Consolidation Revisions.

Class,	A-3	160.00	Acres	Value	$12,000.00
"	B-1	303.50	"	"	15,175.00
"	B-2	320.00	"	"	8,000.00
"	B-3	160.00	"	"	1,600.00
"	C	2,595.00	"	"	2,595.00
	Total	3,538.50	"	Total,	$39,370.00

Lease No. 30:

Date, May 31, 1923. Term, 5 years. Lessor, Lee Bivins. Lessee, Producers & Refiners Corporation. Potter, Moore, Carson, Hutchinson, Oldham and Hartley Counties. 134,458.04 acres. This is the base "A" Lease.

Wells drilled on this Lease:

Well No.	Date Completed	Initial Open Flow Mcf.	Initial Rock Pressure Mcf.	Present Open Flow Mcf.	Present Rock Pressure	Production Mcf. to Date
A- 2	7/16/24	15,800	414	11,926	386	6,837,316
A- 3	3/30/25	18,500	435	24,751	385	14,000,846
A- 4	4/ 8/26	8,678	412	2,169	360	802,063
A- 5	10/10/26	16,000	432	12,988	405	4,911,328
A- 6	9/18/28	5,200	426	6,535	398	1,895,523
A- 7	9/10/28	25,800	426	19,407	415	4,874,506
A- 8	7/31/28	50,000	423	10,156	425	1,996,837
A- 9	10/22/28	10,500	423	9,440	428	68,141
A-10	5/17/29	2,840	424	1,475	380	71,748
A-13	9/15/30	4,000	423	4,254	414	318,502
A-14	11/ 9/35	35,800	418	31,092	405	10,523,637
A-15	3/ 4/36	7,300	417	9,547	403	1,461,045
A-16	11/28/35	11,400	407	11,567	390	3,746,068
A-17	1/28/36	5,025	412	1,996	315	792,760
A-18	11/ 5/36	18,720	413	13,536	391	3,393,224
A-19	1/30/37	20,800	407	12,842	385	3,103,546
A-20	5/ 1/37	12,263	403	6,768	385	2,118,719
A 20	B.H. —	5,370	400	4,827	390	—
A-21	8/22/37	56,000	400	20,418	361	5,646,839
A-22	12/12/37	3,700	410	3,992	425	—
A-23	2/ 2/38	9,520	405	5,546	388	341,946
A-23	B.H. —	2,258	403	2,293	405	—
A-24	11/29/38	33,880	410	28,725	403	1,874,466
A-25	5/21/39	23,255	—	9,478	414	452,180
A-25	B.H. —	—	—	4,574	410	—

All Leases consolidated into the "A" Lease operate under the terms of said lease and revisions and substitutions as set out in the Consolidation Contract dated May 1, 1939.

Class	A-2	1,304.00 acres	Value	$130,400.00
"	A-3	11,500.60 "	"	862,545.00
"	B-1	12,322.80 "	"	616,140.00
"	B-2	16,554.90 "	"	413,872.50
"	B-3	26,632.40 "	"	266,324.00
"	C	64,748.34 "	"	64,748.34
	Total	133,063.04	Total	$2,354,029.84

Note: 1,395 acres in consolidation, but not in original lease not valued.

Lease No. 53 & 33:

Date, December 16, 1916. Term, 3 years. Lessor, Lee Bivins. Lessee, M. C. Nobles. Potter County. 15,462.7 acres. Consolidated into "A" Lease.

Wells drilled on this Lease:

Well No.	Date Completed	Initial Open Flow Mcf.	Initial Rock Pressure Mcf.	Present Open Flow Mcf.	Present Rock Pressure	Production Mcf. to Date
C-1	2/27/20	20,000	435	10,300	411	7,744,291
C-4	8/28/23	12,000	435	3,898	405	2,810,166
D-3	12/ 2/22	10,981	435	8,837	390	4,116,654

This lease is consolidated under terms of "A" Lease and Consolidation Revisions.

Class	B-1	9,306.70 acres	Value	$465,335.00
"	B-2	1,951.00 "	"	48,775.00
"	B-3	2,224.00 "	"	22,240.00
"	C	1,981.00 "	"	1,981.00
	Total	15,462.70 "	Total	$538,331.00

Lease No. 82 "J":

Date, May 23, 1928. Term, 5 years. Lessor, Lee Bivins, et al. Lessee, Amarillo Oil Company. Moore and Potter Counties. 1,553.0 acres. Consolidated into "A" Lease.

Well drilled on this Lease:

Well No.	Date Completed	Initial Open Flow Mcf.	Initial Rock Pressure Mcf.	Present Open Flow Mcf.	Present Rock Pressure	Production Mcf. to Date
J-1	8/30/33	53,400	403	67,524	369	5,633,724

This lease is consolidated under terms of "A" Lease and Consolidation Revisions.

Class, A-3. Value, $116,475.00.

Lease No. 113 "F":

Date, November 18, 1926. Term, 5 years. Lessor, Lee Bivins. Lessee, John G. McKenzie. Hutchinson County. 160 acres. Consolidated into "A" Lease.

Well drilled on this Lease:

Well No.	Date Completed	Initial Open Flow Mcf.	Initial Rock Pressure Mcf.	Present Open Flow Mcf.	Present Rock Pressure	Production Mcf. to Date
F-1	12/ 3/27	75,000	423	21,502	352	3,255,716

This lease is consolidated under terms of "A" Lease and Consolidation Revisions.

Class, B-1. Value, $8,000.00.

Lease No. 122 "G":

Date, May 25, 1926. Term, 5 years. Lessor, Lee Bivins. Lessee, Humble Oil & Refining Company. Moore County. 160 acres. Consolidated into "A" Lease.

Well drilled on this Lease:

Well No.	Date Completed	Initial Open Flow Mcf.	Initial Rock Pressure Mcf.	Present Open Flow Mcf.	Present Rock Pressure	Production Mcf. to Date
G-1	5/25/31	46,000	410	25,685	343	2,537,990

This lease consolidated under terms of "A" lease and Consolidation Revisions.

Class, B-1. Value, $8,000.00.

Lease No. 123 "H":

Date, May 25, 1926. Term, 5 years. Lessor, Lee Bivins. Lessee, Humble Oil & Refining Company. Moore County. 160 acres. Consolidated into "A" Lease.

Well drilled on this Lease:

Well No.	Date Completed	Initial Open Flow Mcf.	Initial Rock Pressure Mcf.	Present Open Flow Mcf.	Present Rock Pressure	Production Mcf. to Date
H-1	5/22/31	45,000	410	21,118	360	2,602,476

This lease is consolidated under terms of "A" Lease and Consolidation Revisions.

Class, B-1. Value, $8,000.00.

Lease No. 124 "I":

Date, May 18, 1929. Term, 1 year. Lessor, Mary E. Bivins, et al. Lessee, Fritch Oil & Gas Corporation. Potter and Moore Counties. 160 acres. Consolidated into "A" Lease.

Well drilled on this Lease:

Well No.	Date Completed	Initial Open Flow Mcf.	Initial Rock Pressure Mcf.	Present Open Flow Mcf.	Present Rock Pressure	Production Mcf. to Date
I-1	7/22/31	40,000	395	28,268	363	3,746,650

This lease is consolidated under terms of "A" Lease and Consolidation Revisions.

Class. B-1. Value, $8,000.00.

Lease No. 4-10-49-54-76:

Date, April 24, 1917. Term, 1 year. Lessor, R. B. Masterson. Lessee, M. C. Nobles. Potter County. 11,300 acres. Consolidated with "B" Lease dated December 22, 1916. Wells drilled on this Lease:

Well No.	Date Completed	Initial Open Flow Mcf.	Initial Rock Pressure Mcf.	Present Open Flow Mcf.	Present Rock Pressure	Production Mcf. to Date
C-1	12/8/18	5,000	430	2,169	396	430,092
C-3	9/23/19	18,000	430	7,319	403	6,761,244

This lease was consolidated under the terms of the lease dated December 22nd, 1916, as to the Gas Rights only, under Consolidation Contract dated October 13th, 1938. This lease is included in Exhibit "A" of said contract.

Class	A-2	6,880.00 acres	Value	$688,000.00
"	A-3	3,840.00 "	"	288,000.00
"	B-1	580.00 "	"	29,000.00
	Total	11,300.00 "	Total	$1,005,000.00

Lease No. 26 and 52:

Date, April 8, 1919. Term, extended 7 years. Lessor, R. B. Masterson. Lessee, D. S. Krister. Potter County. 2,240 acres. Consolidated with "B" Lease dated December 22, 1916.

Well drilled on this Lease:

Well No.	Date Completed	Initial Open Flow Mcf.	Initial Rock Pressure Mcf.	Present Open Flow Mcf.	Present Rock Pressure	Production Mcf. to Date
H-1	7/1/21	15,000	430	4,701	407	993,374

This lease consolidated under the terms of lease dated December 22nd, 1916, as to Gas Rights only. Consolidation contract dated October 13th, 1938. This lease is included in Exhibit "A" of said contract.

Class	B-1	560.00 acres	Value	$28,000.00
"	B-2	560.00 "	"	16,000.00
"	B-3	840.00 "	"	8,400.00
"	C	200.00 "	"	200.00
	Total	2,240.00 "	Total	$52,600.00

Lease No. 32 & 88:

Date, January 28th, 1922. Term, 5 years. Lessor, R. B. Masterson, et al. Lessee, Empire Gas & Fuel Company, Potter County. 480 acres. Consolidated with leases dated December 22nd, 1916.

This lease is consolidated under terms of lease dated December 22nd, 1916, as to Gas Rights only. Consolidation contract dated October 13th, 1938. This lease is included in Exhibit "A" of said contract.

Class, B-2. Value, $12,000.00.

Lease No. 37:

Date, January 11, 1918. Term, 5 years and extension. Lessor, R. B Masterson. Lessee, R. C. Ware. Potter County. 160 acres. Consolidated with leases dated December 22, 1916.

This lease is consolidated under the terms of the lease dated December 22, 1916, as to Gas Rights only. The Consolidation Contract is dated October 13, 1938. This lease is included in Exhibit "A" of said contract.

Class, A-2. Value, $16,000.00.

Lease No. 38:

Date, January 11, 1918. Term, 5 years. Lessor, R. B. Masterson. Lessee, W. O'Brien. Potter County. 160 acres. Consolidated with lease dated December 22, 1916.

This lease is consolidated under the terms of lease dated December 22, 1916, as to Gas Rights only. The consolidation contract is dated October 13, 1938. This lease is included in Exhibit "A" of said contract.

Class, A-2. Value, $16,000.00.

Lease No. 39:

Date, January 11, 1918. Term, 5 years. Lessor, R. B. Masterson. Lessee, T. E. Durham. Potter County. 318.75 acres. Consolidated with lease dated December 22, 1916.

This lease is consolidated under the terms of leases dated December 22, 1916, as to Gas Rights only. The consolidation contract is dated October 13, 1938. This lease is included in Exhibit "A" of said contract.

Class, C. Value, $318.75.

Lease No. 40:

Date, January 11, 1918. Term, 5 years. Lessor, R. B. Masterson. Lessee, J. N. Beasley. Potter County. 360 acres. Consolidated with lease dated Dec. 22, 1916.

This lease is consolidated under the terms of lease dated Dec. 22, 1916, as to Gas Rights only. Consolidation contract is dated October 13, 1938. This lease is included in Exhibit "A" of said contract.

Class, A-2. Value, $36,000.00.

Lease No. 41:

Date, January 9, 1918. Term, 5 years. Lessor, R. B. Masterson. Lessee, C. E. Weymouth. Potter County. 320 acres. Consolidated with lease dated Dec. 22, 1916.

This lease is consolidated under terms of lease dated Dec. 22, 1916, as to Gas Rights only: The consolidation contract is dated October 13, 1938. This lease is included in Exhibit "A" of said contract.

Class, A-1. Value, $40,000.00.

Lease No. 42:

Date, January 11, 1918. Term, 5 years. Lessor, R. B. Masterson. Lessee, L. B. Newby. Potter County. 401 acres. Consolidated with lease dated Dec. 22, 1916.

This lease is consolidated under the terms of lease dated Dec. 22, 1916, as to Gas Rights only. Consolidation contract is dated October 13, 1938. This lease is included in Exhibit "A" of said contract.

Class, A-2	163.70	acres	Value	$16,370.00
" B-1	237.30	"	" "	11,865.00
Total	401.00	"	Total	$28,235.00

Lease No. 43:

Date, January 11, 1918. Term, 5 years. Lessor, R. B. Masterson. Lessee, D. S. Kritser. Potter County, 342.92 acres. Consolidated with lease dated Dec. 22, 1916.

This lease is consolidated under the terms of lease dated Dec. 22, 1916, as to Gas Rights only. The consolidation

contract is dated October 13, 1938. This lease is included in Exhibit "A" of said contract.

Class, B-3. Value, $3,429.20.

Lease No. 44:

Date, February 8, 1918. Term, 5 years. Lessor, R. B. Masterson. Lessee, E. A. Wells. Potter County. 639.01 acres. Consolidated with lease dated December 22, 1916.

This lease is consolidated under the terms of lease dated Dec. 22, 1916, as to Gas Rights only. The consolidation contract is dated October 13, 1938. This lease is included in Exhibit "A" of said contract.

Class, A-2	320.00	acres	Value,	$32,000.00
" B-1	319.01	"	"	15,950.50
Total	639.01	"	Total	$47,950.50

Lease No. 45:

Date, January 11, 1918. Term, 5 years. Lessor, R. B. Masterson. Lessee, M. J. R. Jackson and R. E. Underwood. Potter County. 160 acres. Consolidated with lease dated Dec. 22, 1916.

This lease is consolidated under the terms of lease dated Dec. 22, 1916, as to Gas Rights only. Consolidation contract is dated Oct. 13, 1938. This lease is included in Exhibit "A" of said contract.

Class, A-1. Value, $20,000.00.

Lease No. 46:

Date, January 11, 1918. No term set out. Lessor, R. B. Masterson. Lessee, J. N. Beasley, et al. Potter County. 322.8 acres. Consolidated with lease dated December 22, 1916.

This lease is consolidated under the terms of lease dated December 22, 1916, as to Gas Rights only. The consolidation contract is dated October 13, 1938. This lease is included in Exhibit "A" of said contract.

Class, A-2. Value, $32,280.00.

Lease No. 55:

Date, June 1, 1917. Term, ... Lessor, R. B. Masterson. Lessee, Amarillo Oil Company. Potter County. 5,457.18 acres. Consolidated with lease dated Dec. 22, 1916. Well drilled on this Lease:

Well No.	Date Completed	Initial Open. Flow Mcf.	Initial Rock Pressure Mcf.	Present Open Flow Mcf.	Present Rock Pressure	Production Mcf. to Date
D-4	11/29/19	107,000	430	90,024	382	29,481,675

This lease is consolidated under the terms of lease dated December 22, 1916, as to Gas Rights only. The consolidation contract is dated October 13, 1938. This lease is included in Exhibit "A" of said contract.

Class, A-2	4,355.18	acres	Value	$435,518.00
" A-3	521.00	"	"	39,075.00
" B-1	581.00	"	"	29,050.00
Total	5,457.18	"	Total	$503,643.00

Lease No. 56 & 77:

Date, January 18, 1918. Term .... Lessor, R. B. Masterson. Lessee, Amarillo Oil Company. Potter County. 1,920 acres. Consolidated with lease dated Dec. 22, 1916. Well drilled on this Lease:

Well No.	Date Completed	Initial Open Flow Mcf.	Initial Rock Pressure Mcf.	Present Open Flow Mcf.	Present Rock Pressure	Production Mcf. to Date
E-2	9/19/29	5,000	425	2,690	393	979,757

This lease is consolidated under the terms of lease dated Dec. 22, 1916, as to Gas Rights only. The consolidation contract is dated October 13, 1938. This lease is included in Exhibit "A" of said contract.

Class, A-2	1,280.00	acres.	Value	$128,000.00
" A-3	640.00	"	"	48,000.00
Total	1,920	"	Total	$176,000.00

Lease No. 58:

Date, December 22, 1916. Term, 3 years. Lessor, R. B. Masterson. Lessee, M. C. Nobles. Potter and Moore Counties. 18,386.82 acres.

Wells drilled on this Lease:

Well No.	Date Completed	Initial Open Flow Mcf.	Initial Rock Pressure Mcf.	Present Open Flow Mcf.	Present Rock Pressure	Production Mcf. to Date
B-1	11/20/27	68,000	430	43,578	374	16,527,817
B-5	6/24/20	6,250	430	5,481	408	761,582
B-2	7/24/39	39,559	380	35,173	381	453,332
B-3	6/14/39	37,347	—	33,990	385	543,566

This lease is the "key lease" into which all the leases under the consolidation of leases were merged, except, however, with alterations as set out in said consolidation contract.

Class	A-1	3,461.82	Acres,	Value	$432,727.50
"	A-2	1,148.80	"	"	114,880.00
"	A-3	3,267.20	"	"	245,040.00
"	B-1	4,377.50	"	"	218,875.00
"	B-2	3,340.80	"	"	83,520.00
"	B-3	2,790.70	"	"	27,907.00
	Total	18,386.82		Total	$1,122,949.50

Lease No. 71:

Date, January 21, 1918. No term. Lessor, R. B. Masterson. Lessee, J. L. Summers and H. E. Kinkead. Potter County. 1,055 acres. Consolidated with lease dated December 22, 1916.

Well drilled on this Lease:

Well No.	Date Completed	Initial Open Flow Mcf.	Initial Rock Pressure Mcf.	Present Open Flow Mcf.	Present Rock Pressure	Production Mcf. to Date
K-1	5/31/28	8,300	427	4,542	390	2,030,925

This lease is consolidated under the terms of lease dated Dec. 22, 1916, as to Gas Rights only. The consolidation contract is dated October 13, 1938. This lease is included in Exhibit "A" of said contract.

Class	A-2	640.00 acres		Value	$64,000.00
"	B-1	95.00	"	"	4,750.00
"	B-3	320.00	"	"	3,200.00
	Total	1,055.00	"	Total	$71,950.00

~~Lease No. 75:~~

Date, January 28, 1922. No term given. Lessor, R. B. Masterson, et al. Lessee, Emerald Oil Company. Potter County. 640 acres. Consolidated with lease dated December 22, 1916.

Well drilled on this Lease:

Well No.	Date Completed	Initial Open Flow Mcf.	Initial Rock Pressure Mcf.	Present Open Flow Mcf.	Present Rock Pressure	Production Mcf. to Date
L-1	11/—/20	3,000	425	1,475	396	585,343

This lease is consolidated under the terms of lease dated December 22, 1916, as to Gas Rights only.

The consolidation contract is dated October 13, 1938. This lease is included in Exhibit "A" of said contract.

Class, B-1. Value, $32,000.00.

Lease No. 87:

Date, January 10, 1918. No term given. Lessor, R. B. Masterson. Lessee, W. O. Allen and W. M. Thompson. Potter County. 699.4 acres. Consolidated with lease dated December 22, 1916.

This lease is consolidated under the terms of lease dated December 22, 1916, as to Gas Rights only. The consolidation contract is dated October 13, 1938. This lease is included in Exhibit "A" of said contract.

Class	B-2	367.00 acres		Value	$ 9,175.00
"	B-3	332.40	"	"	3,324.00
	Total	699.40	"	Total	$12,499.00

Lease No. 91:

Date, January 28, 1922. No term given. Lessor, R. B. Masterson. Lessee, The Pure Oil Company. Potter County. 640 acres. Consolidated with lease dated December 22, 1916. Well drilled on this Lease:

Well No.	Date Completed	Initial Open Flow Mcf.	Initial Rock Pressure Mcf.	Present Open Flow Mcf.	Present Rock Pressure	Production Mcf. to Date
X-1	5/24/30	19,891	409	20,563	405	2,513,777

This lease is consolidated under the terms of lease dated December 22, 1916, as to Gas Rights only. The consolidation contract is dated October 13, 1938. This lease is included in Exhibit "A" of said contract.

Class	B-1	160.00	acres	Value	$ 8,000.00
"	B-2	400.00	"	"	10,000.00
"	B-3	80.00	"	"	800.00
	Total	640.00	"	Total	$18,800.00

Lease No. 121:

Date, September 14, 1931. No term given. Lessor Eliza Masterson, individually and as executrix. Lessee, Amarillo Oil Company. Potter County. 8,228.25 acres. Consolidated with lease dated December 22, 1916.

This lease is consolidated under the terms of lease dated December 22, 1916, as to Gas Rights only. The consolidation contract is dated October 13, 1938. This lease is included in Exhibit "A" of said contract.

Class	A-2	160.00	acres	Value	$ 16,000.00
"	B-1	480.00	"	"	24,000.00
"	B-2	3,087.50	"	"	77,187.50
"	B-3	1,150.75	"	"	11,507.50
"	C	3,350.00	"	"	3,350.00
	Total	8,228.25	"	Total	$132,045.00

Lease No. 126:

Date, February 6, 1919. No term given. Lessor, R. B. Masterson. Lessee, L. C. Cazzell. Moore and Potter Counties. 40 acres. Consolidated with lease dated December 22, 1916.

This lease is consolidated under the terms of lease dated December 22, 1916, as to Gas Rights only. The consolidation contract is dated October 13, 1938. This lease is included in Exhibit "A" of said contract.

Class, A-2. Value, $4,000.00.

Lease No. 127:

Date, February 14, 1919. No term given. Lessor R. B. Masterson. Lessee, H. E. Exum. Moore County. 40 acres. Consolidated with lease dated December 22, 1916.

This lease is consolidated under the terms of lease dated December 22, 1916, as to Gas Rights only. The consolidation contract is dated October 13, 1938. This lease is included in Exhibit "A" of said contract.

Class, A-2. Value, $4,000.00.

Lease No. 128:

Date, November 20, 1919. No term given. Lessor, R. B. Masterson. Lessee, Sinclair Oil & Gas Company. Moore County. 108.16 acres. Consolidated with lease dated December 22, 1916.

This lease is consolidated under the terms of lease dated December 22, 1916. The consolidation contract is dated October 13, 1938 and covers Gas Rights only. This lease is included in Exhibit "A" in said contract.

Class, A-1. Value, $13,520.00.

Lease No. 129:

Date, September 23, 1919. No term given. Lessor, R. B. Masterson. Lessee, Sinclair Consolidated Oil & Gas Company. Potter and Moore Counties. 160 acres. Consolidated with lease dated December 22, 1916.

This lease is consolidated under the terms of lease dated December 22, 1916, as to Gas Rights only. The consolidation contract is dated October 13, 1938. This lease is included in Exhibit "A" of said contract.

Class, A-1. Value, $20,000.00.

Lease No. 130:

Date, September 23, 1919. No term given. Lessor, R. B. Masterson. Lessee, Sinclair Consolidated Oil & Gas Company. Moore County. 160 acres. Consolidated with lease dated December 22, 1916.

This lease is consolidated under the terms of lease dated December 22, 1916, as to Gas Rights only. The consolidation contract is dated October 13, 1938. This lease is included in Exhibit "A" of said contract.

Class, A-1. Value, $20,000.00.

Lease No. 131:

Date, September 19, 1919. No term given. Lessor, R. B. Masterson. Lessee, Sinclair Consolidated Oil & Gas Company. Potter County. 80 acres. Consolidated with lease dated December 22, 1916.

This lease is consolidated under the terms of lease dated December 22, 1916, as to Gas Rights only. The consolidation contract is dated October 13, 1938. This lease is included in Exhibit "A" of said contract.

Class, B-3. Value, $800.00.

Lease No. 132:

Date, October 8, 1919. No term given. Lessor, R. B. Masterson. Lessee, D. S. Kritser. Potter County, 120 acres. Consolidated with lease dated December 22, 1916.

This lease is consolidated under the terms of lease dated December 22, 1916, as to Gas Rights only. The consolidation contract is dated October 13, 1938. This lease is included in Exhibit "A" of said contract.

Class A-3. Value, $9,000.00.

Lease No. 133:

Date, May 10, 1919. No term given. Lessor, R. B. Masterson. Lessee, Sinclair Consolidated Oil & Gas Company. Potter County. 134.62 acres. Consolidated with lease dated December 22, 1916.

This lease is consolidated under the terms of lease dated December 22, 1916, as to Gas Rights only. The consolidation contract is dated October 13, 1938. This lease is included in Exhibit "A" of said contract.

Class, B-3. Value, $1,346.20.

Lease No. 134:

Date, February 8, 1919. No term given. Lessor, R. B. Masterson. Lessee, Gertrude E. Brooks. Potter County. 40 acres. Consolidated with lease dated December 22, 1916.

This lease is consolidated under the terms of lease dated December 22, 1916, as to Gas Rights only. The consolidation contract is dated October 13, 1938. This lease is included in Exhibit "A" of said contract.

Class C. Value, $40.00.

Lease No. 135:

Date, September 19, 1919. No term given. Lessor, R. B. Masterson. Lessee, Sinclair Consolidated Oil & Gas Company. Potter County. 160 acres. Consolidated with lease dated December 22, 1916.

This lease is consolidated under the terms of lease dated December 22, 1916, as to Gas Rights only. The consolidation contract is dated October 13, 1938. This lease is included in Exhibit "A" of said contract.

Class C. Value, $160.00.

Lease No. 31:

Date, May 10, 1923. Term, 10 years. Lessor, R. B. Masterson. Lessee, Producers & Refiners Corporation. Potter and Moore Counties. 29,400.71 acres. Consolidated with lease dated December 22, 1916.

Wells drilled on this Lease:

Well No.	Date Completed	Initial Open Flow Mcf.	Initial Rock Pressure Mcf.	Present Open Flow Mcf.	Present Rock Pressure	Production Mcf. to Date
A-1	8/25/25	15,000	435	9,894	367	6,499,377
A-2	3/10/26	52,000	435	34,327	369	24,724,689
A-3	12/12/35	43,320	395	28,725	369	8,083,410
A-4	2/17/39	56,009	388	53,085	385	2,336,682
A-5	10/12/40	24,800	397	24,800	397	None

This lease is consolidated under the terms of lease dated December 22, 1916, as to Gas Rights only. The consolidation contract is dated October 13, 1938. This lease is included in Exhibit "B" of said contract.

Class,	A-1	9680.38	acres.	Value	$1,210,047.50
"	A-2	5,209.00	"	"	520,900.00
"	B-1	879.70	"	"	43,985.00
"	B-2	1,345.80	"	"	33,645.00
"	B-3	4,131.88	"	"	41,318.80
"	C	8,153.95	"	"	8,153.95
Total		29,400.71		Total	$1,858,050.25

Lease No. 65:

Date, May 10, 1923. No term given. Lessor, R. B. Masterson. Lessee, Amarillo Oil Company. Moore County. 6,849.38 acres. Consolidated with lease dated December 22, 1916.

Wells drilled on this Lease:

Well No.	Date Completed	Initial Open Flow Mcf.	Initial Rock Pressure Mcf.	Present Open Flow Mcf.	Present Rock Pressure	Production Mcf. to Date
J-1	4/30/27	10,000	425	7,414	342	5,207,473
J-2	9/16/27	8,000	427	5,546	407	1,785,219

This lease is consolidated under the terms of lease dated December 22, 1916, as to Gas Rights only. The consolidation contract is dated October 13, 1938. This lease is included in Exhibit "B" of said contract.

Class,	A-1	726.67	acres.	Value,	$ 90,833.75
"	A-2	1,081.16	"	"	108,116.00
"	A-3	531.70	"	"	39,877.50
"	B-1	850,00	"	"	42,500.00
"	B-2	437.80	"	"	10,945.00
"	B-3	1,046.15	"	"	10,461.50
"	C	2,175.90	"	"	2,175.90
Total,		6,849.38	"	Total	$304,909.65

Lease No. 86:

Date, June 1, 1926. No term given. Lessor, R. B. Masterson and J. T. Sneed, Jr. Lessee, Master Oil & Gas Company. Moore County. 2,587.2 acres. Consolidated with lease dated December 22, 1916.

Well drilled on this Lease:

Well No.	Date Completed	Initial Open Flow Mcf.	Initial Rock Pressure Mcf.	Present Open Flow Mcf.	Present Rock Pressure	Production Mcf. to Date
M-1	3/15/20	9,000	435	4,462	380	2,771,516

This lease is consolidated under the terms of lease dated December 22, 1916, as to Gas Rights only. The consolidation contract is dated October 13, 1938. This lease is included in Exhibit "B" of said contract.

Class, A-1. Value, $323,400.00.

Lease No. 28 and 45:

Date, January 11, 1918. Term, 5 years. Lessor, R. B. Masterson. Lessee, M. J. R. Jackson and R. E. Underwood. Potter County.. 480 acres. Consolidated with lease dated December 22, 1916.

This lease is consolidated under the terms of lease dated December 22, 1916, as to Gas Rights only. The consolidation contract is dated October 13, 1938. This lease is included in Exhibit "C" of said contract.

Class	A-1	160.00	acres	Value	$20,000.00
"	B-3	320.00	"	"	3,200.00
	Total	480.00	"	Total	$23,200.00

Lease No. 37:

Date, January 11, 1918. No term given. Lessor, R. B. Masterson. Lessee, R. C. Ware. Potter County. 159.88 acres. Consolidated with lease dated December 22, 1916.

This lease is consolidated under the terms of lease dated December 22, 1916, as to Gas Rights only. The consolidation contract is dated October 13, 1938. This lease is included in Exhibit "C" of said contract.

Class, A-2. Value, $15,988.00.

Lease No. 38:

Date, January 11, 1918. No term given. Lessor, R. B. Masterson. Lessee, W. O'Brien. Potter County. 482.05 acres. Consolidated with lease dated December 22, 1916.

This lease is consolidated under the terms of lease dated December 22, 1916, as to Gas Rights only. The consolidation contract is dated October 13, 1938. This lease is included in Exhibit "C" of said contract.

Class	A-2	160.00	acres	Value	$16,000.00
"	B-3	322.05	"	"	3,220.50
	Total	482.05	"	Total	$19,220.50

Lease No. 39:

Date, January 11, 1918. No term given. Lessor, R. B. Masterson. Lessee, T. E. Durham. Potter County. 324.9 acres. Consolidated with lease dated December 22, 1916.

This lease is consolidated under the terms of lease dated December 22, 1916, as to Gas Rights only. The consolidation contract is dated October 13, 1938. This lease is included in Exhibit "C" of said contract.

Class, C. Value, $324.90.

Lease No. 40:

Date, January 11, 1918. No term given. Lessor, R. B. Masterson. Lessee, J. N. Beasley. Potter County. 280 acres. Consolidated with lease dated December 22, 1916.

This lease is consolidated under the terms of lease dated

December 22, 1916, as to Gas Rights only. The consolidation contract is dated October 13, 1938. This lease is included in Exhibit "C" of said contract.

Class, A-2. Value, $28,000.00.

Lease No. 41:

Date, January 9, 1918. No term given. Lessor, R. B. Masterson. Lessee, C. E. Weymouth. Potter County. 320 acres. Consolidated with lease dated December 22, 1916.

This lease is consolidated under the terms of lease dated December 22, 1916, as to Gas Rights only. The consolidation contract is dated October 13, 1938. This lease is included in Exhibit "C" of said contract.

Class, A-1. Value, $40,000.00.

Lease No. 42:

Date, January 11, 1918. No term given. Lessor, R. B. Masterson. Lessee, L. B. Newby. Potter County. 201.75 acres. Consolidated with lease dated December 22, 1916.

This lease is consolidated under the terms of lease dated December 22, 1916, as to Gas Rights only. The consolidation contract is dated October 13, 1938. This lease is included in Exhibit "C" of said contract.

Class	A-2	161.75 acres	Value	$16,175.00
"	B-1	40.00 "	"	2,000.00
	Total	201.75 "	Total	$18,175.00

Lease No. 43:

Date, January 11, 1918. No term given. Lessor, R. B. Masterson. Lessee, D. S. Kritser. Potter County. 261.77 acres. Consolidated with lease dated December 22, 1916. Well drilled on this Lease:

Well No.	Date Completed	Initial Open Flow Mcf.	Initial Rock Pressure Mcf.	Present Open Flow Mcf.	Present Rock Pressure	Production Mcf. to Date
F-1	10/ 1/21	5,000.	425	3,609	415	748,153.

This lease is consolidated under the terms of lease dated December 22, 1916, as to Gas Rights only. The consolidation contract is dated October 13, 1938. This lease is included in Exhibit "C" of said contract.

Class, B-3. Total Value, $2,627.70.

Lease No. 44:

Date, February 8, 1918. No term given. Lessor, R. B. Masterson. Lessee, L. A. Wells. Potter County. 589.59 acres. Consolidated with lease dated December 22, 1916.

Well drilled on this Lease:

Well No.	Date Completed	Initial Open Flow Mcf.	Initial Rock Pressure Mcf.	Present Open Flow Mcf.	Present Rock Pressure	Production Mcf. to Date
G-2	1/14/24	15,000	422	5,175	390	1,034,718

This lease is consolidated under the terms of lease dated December 22, 1916, as to Gas Rights only. The consolidation contract is dated October 13, 1938. This lease is included in Exhibit "C" of said contract.

Class	A-2	160.00	acres	Value	$16,000.00
"	B-1	429.59	"	"	21,479.50
	Total	589.59	"	Total	$37,479.50

Lease No. 46:

Date, January 11, 1918. No term given. Lessor, R. B. Masterson. Lessee, J. N. Beasley, et al. Potter County. 200 acres. Consolidated with lease dated December 22, 1916.

This lease is consolidated under the terms of lease dated December 22, 1916, as to Gas Rights only. The consolidation contract is dated October 13, 1938. This lease is included in Exhibit "C" of said contract.

Class, A-2. Value, $20,000.00.

Lease No. 32 & 88:

Date, January 28, 1922. No term given. Lessor, R. B. Masterson, et al. Lessee, Empire Gas & Fuel Company. Potter County. 160 acres. Consolidated with lease dated December 22, 1916.

Well drilled on this Lease:

Well No.	Date Completed	Initial Open Flow Mcf.	Initial Rock Pressure Mcf.	Present Open Flow Mcf.	Present Rock Pressure	Production Mcf. to Date
I-1	12/18/22	29,000	430	26,197	409	1,165,169

This lease is consolidated under the terms of lease dated December 22, 1916, as to Gas Rights only. The consolidation contract is dated October 13, 1938. This lease is included in Exhibit "C" of said contract.

Class, B-2. Value, $4,000.00.

Lease No. ....:

Date, ... No term given. Lessor, R. B. Masterson. Lessee, Canadian River Gas Company. Potter County. 1,380.67 acres.

(Acreage included under consolidation contract not under lease prior to consolidation.)

Class	A-1	22.48	acres	Value	$ 2,810.00
"	A-2	160.00	"	"	16,000.00
"	A-3	390.00	"	"	29,250.00
"	B-1	129.40	"	"	6,470.00
"	B-2	330.00	"	"	8,250.00
"	B-3	268.79	"	"	2,687.90
"	C	80.00	"	"	80.00
	Total	1,380.67	"	Total	$65,547.90

Lease No. 58 Consol.:

Date, June 1, 1940. No term given. Lessor, R. B. Masterson. Lessee, Canadian River Gas Company. Potter County. 80.0 acres.

Class B-1. Value, $4,000.00.

Where the witness Wallace did not indicate the primary term of the lease, the clause "no term given" indicates that fact.

50. Market Value of Natural Gas in its Natural State at the Wellhead in the Panhandle Field of Texas and Market Value of Gas in its Natural State, Gathered and Delivered at the Intake of the Bivins Compressing Station.

Respondent's witness, R. A. Ford, in testifying to the above points, stated as follows: (Vol. LXXXX, pp. 13676-13682.)

"My name is R. A. Ford. I reside at Amarillo, Texas. I am the General Superintendent of Canadian River Gas Company. I have been engaged exclusively in the natural gas business since the fall of 1919, at which time I accepted a position with A. R. Jones and associates of Kansas City, Missouri, who drilled some of the first wells on the leases of Amarillo Oil Company in the Texas Panhandle Field.

"When the interests of Amarillo Oil Company and Mission Oil Company in such leases and wells were merged, I continued as Superintendent of Amarillo Oil Company until the Canadian River Gas Company was organized in 1928, at which time I became Superintendent of the Land, Lease and Production Department of Canadian River Gas Company, and continued in that position until the fall of 1936, at which time I became General Superintendent of Canadian River Gas Company, and have held that position until the present time.

"My duties in connection with the Canadian River Gas Company have included, among other things, the determination of the fair market value of gas in its natural state at the well, for the purpose of determining the proper rate of royalty payments to be made to our various lessors for their interest in the production. For the purpose of negotiating royalty settlements with lessors, I am required to, and do, keep advised of royalty payments made by other pipe line companies from time to time, which payments are based upon the value of the gas in its natural state at the well, and I know the prevailing rate upon which such payments are based in the West Panhandle Field of Texas. These royalty payments are based upon the value of sweet gas utilized for pipe line purposes as produced at the well.

"The value of sweet gas utilized for pipe line purposes at the well for a period of years, as thus determined, has been 4c per Mcf. in the West Panhandle Field of Texas. While some of the major pipe line companies began paying $4\frac{1}{2}$c per Mcf. at the well about January 1, 1941, it is my opinion that the prevailing price at this time for such purpose is 4c per Mcf.

"I have also been requested to give my opinion as to the fair market value of sweet gas utilized for light and fuel purposes after the same has been gathered and delivered at the Bivins compressor station of Canadian River Gas Company in the Texas Panhandle Field. There are few contracts of this character in existence, which can be cited as evidence of such value. I do desire, however, to call attention to the following contracts which have a very material bearing upon the question:

"1. The contract dated May 17, 1929, between Amarillo Oil Company and the United States Government;

"2. The contract dated February 26, 1937, between Amarillo Oil Company and the American Smelting & Refining Company; and

"3. The contract dated August 1, 1939, between Amarillo Gas Company and the General Public Utilities, Inc.

"The contract between Amarillo Oil Company and the United States Government covers the purchase and sale of residue gas after the helium content only has been extracted. The delivery is at the discharge of the Government's helium plant, some six or seven miles west of the City of Amarillo, Texas. This contract provides that the Amarillo Oil Company shall pay the prevailing wellhead price in the Texas Panhandle Field, plus 1c per Mcf., for similar gas. For the first ten years of this contract, that is, from May 16, 1929, to July 1, 1939; the contract provided that this price should be $5\frac{1}{4}$c per Mcf. on a 16.4 pressure base, which would be the equivalent of $4\frac{1}{4}$c per Mcf. at the wellhead. The contract provides that after July 1, 1939, the partie-

will agree upon the price annually, based as aforesaid upon the prevailing wellhead price, plus 1c per Mcf. Since July 1, 1939, the parties have agreed that the total price shall be 4½ per Mcf., which is equivalent to 3½c per Mcf. at the wellhead. It must be borne in mind, however, that this gas is of an inferior quality and contains only approximately 80% of the heating value of the gas generally produced in the Texas Panhandle Field. When this fact is taken into account, the equivalent price for the gas produced by the United States Government and sold to Amarillo Oil Company would be approximately 4.375c per Mcf. at the wellhead. I might add in this connection that this gas is sold by the Amarillo Oil Company to the American Smelting & Refining Company for consumption at its smelter near Amarillo, Texas, and the price received therefor is 5¼c per Mcf., which is 1¼c less per Mcf. than the price received by Amarillo Oil Company for gas produced from the Texas Panhandle Field and sold under the same contract to the American Smelting & Refining Company.

"The Amarillo Oil Company also sells large volumes of gas produced from Canadian River Acreage in the Texas Panhandle Field to the American Smelting & Refining Company for consumption at its smelter near Amarillo, Texas. It receives for this gas the sum of 6½c per Mcf. on a pressure base of 14.9 pounds, or approximately 7.16c per Mcf. when converted to a 16.4 pound pressure base. This contract provides that the purchaser must purchase a minimum of 2000 Mcf. per day, averaged over the year, and currently is purchasing something like 10,000 Mcf. per day. It must be borne in mind that this is an industrial sale, and although the load may fluctuate somewhat over periods of time, it nevertheless does not fluctuate between summer and winter and is, therefore, a very desirable contract from the standpoint of the load factor involved. Industrial gas, which does not fluctuate with weather and temperature conditions, is the most desirable type of gas sale, and, for this reason, usually sells at a lower figure than gas sold to customers whose requirements fluctuate with temperature.

"The Amarillo Gas Company sells gas to General Public Utilities Inc. for the fuel requirements of its power plant at Amarillo, Texas. This gas is sold on the basis of 8c per Mcf. for the first 62,500 Mcf. per month; 7c per Mcf. for the next 62,500 Mcf. per month; and 6c per Mcf. for all over 125,000 Mcf. per month, with a minimum obligation of $60,000 per year and with a minimum volume obligation of 750,000 Mcf. per year. The price averages more than 7c per Mcf. for all gas sold. This gas is sold on a pressure base of 13.5 pounds which, when converted to a pressure of 16.4 pounds, amounts to an average price of approximately 9c per Mcf. This is also a very desirable industrial load, with very little fluctuation as between summer and winter. In fact, it is almost constant for every day in the year. The load factor is, therefore, very much better than the load factor of Canadian River Gas Company at its Bivins compressor plant. The transportation costs involved in making the sales of gas to General Public Utilities Inc. and American Smelting & Refining Company at Amarillo, should be no more, if as much, than the gathering costs of Canadian River Gas Company involved in gathering gas from the various wells and delivering the same at a central point in the field at the Bivins compressor station. The main line of Amarillo Oil Company from the field to Amarillo is only approximately fifteen miles in length. This compares favorably with main gathering lines of Canadian River Gas Company, which are in excess of thirty miles in length. The maximum delivery pressure for the gas sold and delivered to American Smelting & Refining Company is 20 pounds, while no pressure is stipulated as to the gas sold to General Public Utilities Inc. and it can, therefore, be delivered at any pressure. The cost of transporting gas at these very low discharge pressures is reduced to a minimum.

"It is my opinion, therefore, that the sales hereinabove enumerated serve as a very good criterion of the value of gas delivered to the intake of the Canadian River compressor station at Bivins. As a matter of fact, gas should sell for more at Bivins station, for the reason that the gas sold to the General Public Utilities

Inc. and the American Smelting & Refining Company has had the natural gasoline extracted therefrom, and for the further reason that both of these sales are to large industrial customers with a much more favorable load factor than is experienced by Canadian River Gas Company at its Bivins compressor station. These contracts, therefore, in my opinion, justify the statement that the fair market value of natural gas gathered and delivered at the Bivins compressor station before the extraction of the natural gasoline and on a 16.4 pound pressure base, is at least 7c per Mcf."

Mr. Ford further testified as follows: (Vol. LXXXX, Official Transcript, pp. 13684-13689.)

Q. Mr. Ford, what is this four cents? How is that fixed, this four cents that your have got here as your royalty base? How is that fixed?

A. Four cents as recited as a royalty base?

Q. That's right.

A. By negotiating with the lessers—negotiated contracts on leases that state one-eighth of the value of the gas at the well.

Q. On what pressure base is that?

A. 16.4.

Q. At what pressure base do you sell your gas?

A. You mean Canadian River Gas Company at the mouth of the well?

Q. Yes.

A. Calculated on 16.4 pressure base.

Q. Now, all of the Canadian River Gas Company contracts contain four cents royalty base?

A. Do all of the Canadian River—

Q. Yes.

A. No, they do not.

Q. About what percentage of them do?

A. Pardon me?

Q. About what percentage of them do?

A. The greater number of our leases do not have a fixed royalty rate, simply expressing one-eighth of the value of the gas at the well.

Q. One-eighth of the value of the gas at the well?

A. Yes.

Q. Which ones of the leases do have this four cents written into the lease?

A. Well, some of the Masterson leases, Killgore leases, and Thompson, and Sneed, I think have the four cents written into it.

Q. What about the Bivins?

A. The Bivins lease—are you speaking of original? Some of the original leases with Bivins did not have any value written into the lease and others did.

Q. What about the leases existing now?

A. The Bivins lease?

Q. Yes.

A. After the consolidation agreement had been perfected a year or so ago it had a stipulated payment made to the lessor at the well.

Q. What was that?

A. One cent per thousand cubic feet.

Q. They get more for their gas than other lessors, don't they?

A. Yes, sir.

Q. About how much does that amount to? About what percentage of four cents would that amount to per Mcf.?

A. I don't get what you mean.

Q. If some of these other lessors get one-eighth of your four cents per Mcf. value, how much would the payment of the Bivins Estate amount to—would it be two cents per Mcf., or how much would it amount to?

A. The amount recited in the Bivins contract is one cent per Mcf. and the amount is practically double the one-eighth of four cents value.

Q. Why do you have those discriminatory agreements between your lessors?

A. I couldn't explain that. I am not the party making all of those original agreements and I couldn't state as to why the difference.

Q. Evidently they consider their gas more valuable than these other lessors.

Mr. Keffer: Now, if the Examiner please, of course that Bivins consolidated agreement is in the record. I feel that the assumptions indulged in by Mr. March are rather far-fetched to say that the Bivins contract is either lower

or higher. There isn't any comparison. It simply recites that they shall receive as royalty one cent per Mcf. for all gas produced. It is quite true, as Mr. Ford has just stated, that if you reduce that to a 1/8 basis it would be the equivalent of one-eighth of eight cents, but there is nothing in the instrument that justifies the reduction of a royalty rate to a one-eighth basis.

Now, if the Examiner has read that contract, and certainly Mr. March has, you will recall that there are many stipulations in the thing, or in the lease, which could well account for what Mr. March terms a higher royalty rate. In fact, the original lease; that is, the lease covering 200,000 acres in which the principal lease is included in the consolidation provided a low delay rental and provided that one well should eliminate delay rentals on 20,000 acres for the first primary period, a period of the lease, for the first five years and thereafter that each well should hold 10,000 acres, which is a most exceptional provision, and worth much to the operating company.

Now, all of those special provisions which were of value to the lessee are evident in that royalty rate. Now, to say it is higher or lower, nobody on earth can say that. All these other things must be evaluated and considered in connection with it.

Mr. March: This witness has come up here and testified that the base for royalty payment is four cents based on four cents value of the gas and I have a right to test that statement and I have the right to test his knowledge of what the royalty base is in the Panhandle field of Texas.

Mr. Keffer: Mr. March, that doesn't test it. That's the whole point. He has stated how he arrived at that four cents. The Bivins lease does contain a fixed price and others do not. If he had considered it as you considered it, he would have gotten more than four cents, but you would have been up here raising Hades, generally if as a matter of fact we had considered it.

Why, he is taking the most logical course, and the only correctly legal course that he could take in determining the thing that he is testifying about.

Mr. March: Do you want to testify on this, Mr. Keffer?

Mr. Keffer: Yes, I'll testify on it.

Mr. March: I thought so—

The Trial Examiner: Well, you may continue, Mr. March, but I don't want you to lose sight of the fact that we aren't in a proceeding here to test the discrimination or alleged discrimination or whatever you might label it, of the royalty payments of this company in this particular field.

Mr. March: Yes, but I couldn't possibly test the four cents here without determining what his knowledge was of the actual agreements that had been negotiated in the field; whether they have been negotiated or not. Just because he says they are at four cents—

The Trial Examiner: All right, Mr. March, but how does the question of discrimination between royalty owners enter into this as a test?

Mr. March: It enters into it in this respect: It just goes to show that even the Canadian River Gas Company itself does not have a standard rate of four cents to base their royalty payments on. That's what it shows, and that is right at the heart of this whole thing. They come along here and they have some other payment that is not based on four cents as their royalty, in spite of the fact that the witness comes in here and states that it is based on four cents.

I admit that the question was asked in a manner that made it appear that I was just trying to spread on the record some discriminatory matter. The purpose, however, was to explore and determine as to the standard base for the royalty payments.

The Trial Examiner: I think that is perfectly all right, Mr. March, but you see the question in the form that you put that question gets us into trouble.

Mr. March: I will try to refrain from labeling it.

As to the leases that stipulate that the royalty payments shall be one-eighth of the market value, that market value

has remained static at 4c for the past few years (Vol. LXXXX, p. 13691), the last change being made in about 1936 from 3½c to 4c as a result of investigation with other companies throughout the field, and other surrounding conditions. From 1928 to 1936 his recollection is that the fair market value as negotiated with the lessors remained at 3½c. Most of the Sneed leases stipulate for three-sixteenths of 4c royalty (Vol. LXXXX, p. 13694) and also the Terry Thompson leases. The Killgore lease is one-eighth of 4c. The Canadian has no original leases reciting a royalty payment of less than one-eighth of 4c. (Vol. LXXXX, p. 13697.) In about 60% to 70% of the Canadian's leases covering about 20% of its acreage holdings a 4-cent value has been negotiated where that value was not originally fixed in the leases. (Vol. LXXXX, p. 13699.) Mr. Ford has also made a study of the Texoma Natural Gas Company leases and, according to his investigation, that company's negotiated royalty base at the present time is one-eighth of 4½c on all of its production (Vol. LXXXX, p. 13701), this information being secured from the representatives of the Texoma Company and the personal investigation of two or three leases. While he did not personally check all of the Texoma Company's leases, he did accept the statement of the officials of that company to the effect that the 4½-cent royalty rate was a negotiated rate and not written into the leases. (Vol. LXXXX, p. 13704.) When he negotiated the one-eighth of 4-cent royalty rate, it was pretty definitely standard over the field at that time and generally used by the Texoma Company. (Vol. LXXXX, p. 13706.) Mr. Ford in his study did not give any consideration to the price at which Canadian delivered gas to Colorado Interstate at Clayton, New Mexico, or Gray, Oklahoma, because deliveries were made under a type of contract not suitable for comparison. (Vol. LXXXX, p. 13717.)

In determining his standard value of 4c for royalty purposes, in addition to considering the Texoma Natural Gas Company and Canadian, he considered the Panhandle Eastern which paid one-eighth of 4c pursuant to negotiations during the past year or two. (Vol. LXXXX, pp. 13721, et seq.)

Mr. Ford further testified as follows: (Vol. LXXXX, pp. 13724-13744.)

Q. Do you know the Panhandle Eastern purchases gas from various individual companies in the western field?
A. Yes, sir.
Q. Do you know at what price they purchase that gas?
A. Yes, sir.
Q. At what price?
A. Three and one-half cents, I believe that is what they purchase it for. The contracts I am thinking of are the Shamrock and Huber.
Q. Is that after the gas has been gathered and delivered to the pipe line of the Panhandle Eastern?
A. A certain amount of gathering is done by the producing companies.
Q. That includes the gathering, doesn't it?
A. To a certain extent. It goes into the main line of the Panhandle Eastern or the gathering line within proximity of the producing properties of the Shamrock that goes into the Panhandle Eastern, so it is not an elaborate gathering system they have.
Q. However, 3½ cents is not the delivery price but it is the gathering price?
A. 3½ cents is the price, as I understand it, delivered into the Panhandle line at given points.
Q. Well, did you know that Panhandle Eastern's contracts with the companies you have enumerated are at arm's length?
A. I understand they are. I should think they would be.
Q. They were negotiated at arm's length?
A. Yes, sir.

Mr. Keffer: May I ask a question?

Mr. March: Just a second.

Q. How can you come in here and say the value of gas in the Panhandle field of Texas at the wellhead is four cents, when as a matter of fact they are selling it all over the western part of the field at 3½ cents?

Mr. Keffer: Mr. March, he has never made such a statement.

Mr. March: Please let him answer my question.

Mr. Keffer: I don't think an attorney is entitled to misquote the record.

Mr. March: I make an exception to that statement, Mr. Keffer, because I don't think I have misquoted the record. Just to have the record straight, I'll ask him the question all over again.

Q. We have the understanding here and you have testified, have you not, that they purchase gas from these parties at $3\frac{1}{2}$ cents gathered and delivered to their lines? Have you so testified?

Mr. Keffer: Who are you talking about?

Mr. March: I am talking about the Panhandle Eastern.

Mr. Keffer: You said, "selling gas all over the field for $3\frac{1}{2}$ cents."

Mr. March: That is your question.

Mr. Keffer: That is what I am talking about.

By Mr. March:

Q. Isn't the Panhandle Eastern's acreage from which gas is purchased pretty well scattered over the western part of the sweet gas field?

Mr. Keffer: What do you mean "western part"?

The Trial Examiner: Why don't you confine your questions to the Shamrock Oil & Gas Company and the Huber Oil Company which he stated was on a $3\frac{1}{2}$-cent basis?

Mr. March: My information is they are all on a $3\frac{1}{2}$-cent basis. I will get to the other companies in a minute.

The Trial Examiner: The witness testified to that and then you come along with a sweeping statement about it being all over the field.

Mr. March: The western part of the field.

The Trial Examiner: Even then it is not in conformity as to what the witness testified about.

Mr. March: All right.

Q. Mr. Ford, do you know whether or not the Shamrock's acreage and the Huber Petroleum Company's acreage [illegible] which Panhandle Eastern purchases gas at $3\frac{1}{2}$ cents [illegible] pretty well scattered in the sweet gas area of the west fi[illegible]

A. Well, I don't know exactly what you mean by pretty well scattered. It is located in Hutchinson and Moore counties, as I recall it.

Q. It isn't located all in one block, is it?

A. No, it is not.

Q. It takes considerable gathering system facilities of these companies to gather this gas up for the Panhandle Eastern?

A. No, sir, it does not, in view of the fact that Panhandle Eastern's own gathering system for their own gas is situated in the proximity of these other leases.

Q. Have you made a study of the proximity of Panhandle Eastern's transmission line or the gathering system of the Huber Petroleum Company and the Shamrock Oil & Gas Company?

A. In a general way I know the proximity, yes. I have been over the territory and the route of their lines on the map.

Q. Do you know the extent of the transmission system?

A. Which are you speaking of?

Q. Of the gathering system of the Shamrock Oil Company.

A. Do I know the extent?

Q. Yes.

A. I don't know the exact number of miles they connected into the system, but I do know ordinarily from the standpoint of a gathering system for a gas company, that it is less than we had or other companies do have in gathering a quantity of gas.

Q. They deliver less gas, don't they, to the Panhandle Eastern than Canadian River delivers to its wholesale customers?

A. Well, they deliver a lesser amount to the Panhandle Eastern than we probably deliver into the Bivins station.

Q. Did you know that all of the gas purchased by Panhandle Eastern in 1939 in the western part of the Panhandle field of Texas wasn't at $3\frac{1}{2}$ cents?

A. Yes, I understood it was approximately at that figure.

Mr. Keffer: What contract are you talking about?

Mr. March: Any contract.

Mr. Keffer: Listen to the question. You are talking about Panhandle Eastern and he is talking about all of them.

Mr. March: I am talking about Panhandle Eastern's purchases and that is all I am talking about.

Mr. Keffer: I asked you that and you said you were talking about the field.

Mr. March: You are confused.

Mr. Keffer: I beg your pardon.

By Mr. March:

Q. In so far as you know, all of the purchases of gas by the Panhandle Eastern in the western part of the field was at 3½ cents in 1939?

A. Yes, or thereabouts. It seems to me the figure is slightly over that but I don't know exactly what is averaged.

Q. That was delivered to the Panhandle Eastern Pipeline?

A. It was delivered at their gathering line at certain different points.

Q. At what pressure base?

A. 16.4.

Q. And did you know there were other companies which delivered gas at that price to the Panhandle Eastern system besides the Huber Oil Corporation and the Shamrock Oil & Gas Corporation?

A. Yes, I understood they had some other contracts. Those two I just readily recalled to mind. There are others.

Q. Do you know whether or not Northern Natural Gas Company sells any gas to them or not?

A. It seems to me that they have a contract there of a small quantity of gas going to Panhandle Eastern.

Q. What about the Navajo Oil Company?

A. Navajo sells to them.

Q. Where is the Navajo Oil Company?

A. They have some holdings in northwestern Carson County.

Q. Then the sales to the Panhandle Eastern extend into Hutchinson, Moore, Carson counties, and do they purchase any of that gas from Potter County?

A. Yes. Well, now, they have some of their own production in Potter County. I am not sure whether they buy any from other companies producing there. Part of that Navajo might be in Potter County, I'm not sure.

Q. Do you know of any companies operating in the western part of the Panhandle field of Texas which has gas and can't sell it—sweet gas?

A. Located where?

Q. In the western part of the Panhandle field.

A. No, I don't recall to mind any.

Q. I thought the Shamrock Oil & Gas had sweet gas they couldn't sell—does it have sweet gas they can't sell?

A. I didn't think they had. They might like to sell more or something of that character. I didn't know they had any particular lease that they couldn't sell any from. I didn't know of any case like that.

Q. Or individuals? Do you know of any individuals with sweet gas in the western part of the Texas Panhandle field that can't sell their gas?

A. No, sir.

Q. You think all of them can sell their gas?

A. I think in most cases the market would be available.

Q. Will your company buy gas from anyone else?

A. They never have, no, sir. I don't think they are considered to be a buying company.

Q. Do you know whether Texoma Natural Gas Company has ever bought gas from anyone else?

A. Not to my knowledge they haven't.

Q. Do you know what you could go out and buy gas for in the Texas Panhandle field?

A. That would all depend, Mr. March upon the quantity, the type of the contract, and various things have to enter into what you could buy gas for.

Q. You haven't given any consideration to what you could go out and buy gas for in the Panhandle field?

A. Well, no. I haven't considered it just exactly in that

light. I have given consideration to what the value of that gas is by buying and selling companies but I wouldn't say that I had made a study of a new concern going out and negotiating the purchase of gas.

Q. You have got the value written in here at four cents per Mcf. which is the value which is placed in some of the lease contracts for royalty purposes. Now, that is not the market value—

Mr. Keffer: Now, Mr. March, just again—"value placed in lease contracts." Mr. Ford has been very clear to make it that this is negotiated value where the lease contract contained no specific value.

Mr. March: When you negotiate a contract pursuant to a lease you have a negotiated lease contract.

Mr. Keffer: No, you don't have any such thing.

Mr. March: Well, I'll change it. Maybe it will suit you better.

Q. We already have in the record what you have here, Mr. Ford. You wouldn't contend that this four cents was the market price, would you—the sales price for gas in the Panhandle field of Texas?

A. I would consider that a fair market value.

Q. Now, what is your definition of fair market value?

A. I have considered it from my general knowledge of the west Panhandle field that that is the present buying and selling price—fair price for sweet natural gas at the mouth of the well.

Q. As a matter of fact, the Panhandle Eastern is buying the gas already gathered and delivered to their gathering system.

A. That is one contract but we have numerous others at the four-cent value. There are a number of different rates used.

Q. Would you say, then, that the fair market value is four cents—would be synonymous with market price?

A. Well, I would think so, yes.

Q. You think so? Well, do you know?

A. I believe it would.

Q. Do you know what gas sold for in the west part of the Panhandle field of Texas—the average price at which

gas sold in the western part of the Panhandle field of Texas last year?

Mr. Keffer: May I ask a question as to what you mean by that?

Mr. March: Yes, indeed. Sure.

Mr. Keffer: Now, are you taking in royalty gas which to all intents and purposes is the sale by the land holder of his portion of the gas to the producer?

Mr. March: Actual sales.

Mr. Keffer: That is an actual sale.

Mr. March: That is not an actual sale. That is an arbitrary figure set in a contract for the purpose of paying royalty.

Mr. Keffer: Now, Mr. March, there isn't a line of testimony that that is an arbitrary figure. All the testimony has been that that is a negotiated figure. Can't you please state even close to what the record shows on this and we'll get along much faster?

By Mr. March:

Q. Mr. Ford, do you know what the average market price of gas was last year established by actual sales contracts of gas at the wellhead in the western part of the Panhandle field of Texas?

A. I don't know whether I know exactly what contracts you incorporate in that.

Q. I am just—do you know—I'll say this first: You know first that you have to have a market before you can determine the price, don't you?

A. Yes.

Q. You understand that.

A. Yes.

Q. And you have to have a supply of gas and then you have to have a demand for the gas, don't you?

A. Yes, sir.

Q. You have to have willing buyers and willing purchasers?

A. Yes.

Q. Before you can ever have a market or establish a market price, don't you?

A. Yes, sir.

Q. Otherwise you have an estimated market price which is not established by actual sales contracts.

A. Yes.

Q. Now, is this four cents you have got here in your exhibit the market price established by actual sales of gas in the Panhandle field of Texas last year at the wellhead or is it simply the negotiated value between the companies and their lessors for royalty purposes?

A. It is a result of negotiated contracts with the lessors primarily.

Q. And, therefore, it is not the actual market price fixed by actual sales contracts at the wellhead last year in the Panhandle field of Texas?

A. Yes, it is, in my opinion, considering the fair markets of buying and selling contracts over the field, that the four cents is the established value for buying and selling, even among companies selling to the willing buyers; that is, on the basis of four cents that that would be the value as of today. Of course we have exceptions. There are cases where there will be exceptions.

Q. Do you know whether any purchaser in the western part of the Panhandle field of Texas purchases more gas from independents than the Panhandle Eastern Gas Company?

A. No, I don't.

Q. I see. And that gas—that $3\frac{1}{2}$ cents there is not the wellhead price. Now, where—do you know of any gas sales in the western part of the Panhandle field of Texas where the wellhead price last year—arm's length contracts—where the wellhead price was four cents?

Mr. Spencer: Mr. Examiner, you have got statements or testimony in the first part of that and you wind up with a question. I would like to have it read back or split up in some way.

Mr. March: I'll split it up any way you want it. Yes, I'll ask you this question:

Q. Do you know of any actual sales contracts—arm's length sales contracts—in the Panhandle field of Texas—

the west part of the field, negotiated last year and which the sales price at the wellhead is in excess of $3\frac{1}{2}$ cents?

A. I don't know of any negotiated last year, during 1940 I know of some that were negotiated prior.

Mr. Keffer: Go ahead and tell any more you know about.

Mr. March: I'll get to that in a moment. I'll ask the questions here, Mr. Keffer.

Mr. Keffer: I know, but you limited your—

Mr. March: I'll ask another question which won't limit it. If you want to ask questions you can when I get through.

Q. Do you know of any sales and purchases of gas in the Panhandle field of Texas at the wellhead in the western part of the field last year and prior thereto at $3\frac{1}{2}$ cents and over?

A. Yes, I can call to mind the Hagy, Harrington and Marsh and the Northern Natural at four cents.

Mr. Keffer: Is what?

The Witness: Is at four cents.

Mr. Keffer: Where?

The Witness: In the western field at Carson and Gray County.

Mr. Keffer: At the well?

The Witness: At the well.

By Mr. March:

Q. At the wellhead?

A. Yes, that is considered the wellhead with one-tenth of a cent added for gathering.

Q. There are some additions for gathering purposes?

A. As I recall, that is 4 1/10 cents delivered at a given point.

Mr. Keffer: Let me ask you this, Mr. Ford: if it doesn't break it down to four cents at the wellhead.

The Witness: Yes, it does.

By Mr. March:

Q. When was that negotiated?

A. 1937 I believe.

Q. They don't have any wells in the western part of the field, do they?

A. They have quite a number.

Q. Where is their acreage?

A. In Carson and Gray counties.

Q. Eastern Carson County and Gray County?

A. I couldn't say as to their division between the two counties.

Mr. Keffer: I can't quite hear you.

The Witness: I couldn't say as to the division of their holdings between the two counties, but their acreage is located in Carson and Gray counties.

Mr. Keffer: Is all of it located in the west Panhandle field of Texas?

The Witness: That is what I consider the west Panhandle field.

Mr. Keffer: Well, the Railroad Commission considers it, too, don't they?

The Witness: Yes.

Mr. Keffer: All right.

By Mr. March:

Q. Are you familiar with the details of that contract?

A. Well, yes, to a certain extent.

Q. Have you ever read the contract?

A. Yes, sir.

Q. When did you ever read the contract—recently?

A. Fairly recently.

Q. Are you familiar with all the terms and provisions thereof?

A. I am fairly familiar with them. I don't know whether I could memorize them but I am generally familiar with the terms of the contracts.

Q. Is that the only contract you know of in which gas is sold at four cents in the Panhandle field of Texas?

A. No, sir.

Q. At the wellhead—

The Trial Examiner: You say "Panhandle field of Texas." You mean the total Panhandle field, Mr. March, or are you still on the west field?

Mr. March: I am still talking about the west field.

The Witness: What was the question?

By Mr. March:

Q. My question is if you know of any other arm's length contracts in the western part of the Panhandle field of Texas at which gas sold at the wellhead at more than 3½ cents.

A. There may be others that I can't just call to mind at the present time.

Q. Did you make a study of that thing?

A. Yes.

Q. If there were others, you would remember them, wouldn't you?

A. Well, I don't have it right to mind readily.

Q. How does Panhandle Eastern take gas from these independents compared with Northern Natural takes from Hagy, Harrington and Marsh, do you know, in volume?

A. You mean reduced down to cubic feet?

Q. Yes.

A. I don't know that. I don't know how they compare. You mean the lessors of the Panhandle Eastern compared with Hagy, Harrington and Marsh?

Mr. Spencer: No, that isn't it.

Mr. March: My question is:

Q. How do the volumes of gas taken by the Panhandle Eastern from these independents compare with the volume which is delivered to Hagy, Harrington and Marsh?

A. I don't know.

Q. Would you be willing to say positively and definitely that Hagy, Harrington and Marsh contract expressly says without any strings that the wellhead price was four cents?

A. That is my recollection from the contract that it stipulates the wellhead value at four cents.

Q. It does stipulate a wellhead price at four cents?

A. I mean price, yes, sir.

Q. Well, now, therefore, the Panhandle Eastern and Hagy, Harrington and Marsh agreements are the only ones that you can remember?

A. Well, there is an outright sale at the mouth of the well.

Q. Yes. Of course the Panhandle Eastern isn't at the mouth of the well.

A. No.

Q. It is gathered. Now, were there any—

Mr. Spencer: Now, Mr. March, you keep sticking in a little testimony. Here you say it is gathered. You don't give the witness any chance then to say whether he agrees with you that it is gathered gas or it isn't.

Mr. March: He already testified that it is gathered.

Mr. Spencer: You keep testifying all along yourself.

The Trial Examiner: He has testified to it and you waste a lot of time by repeating it.

By Mr. March:

Q. Do you know of any sales contracts for wellhead gas negotiated last year in the west part of the Panhandle field of Texas?

A. No, I don't.

Q. Do you know any negotiated the year before?

A. No, I don't recall to mind any.

Q. Do you know of any the year before that?

A. Well, these contracts that we have just been discussing were consummated along in 1937 and 1938, along in that general era.

Q. You mean the Panhandle Eastern?

A. And Northern Natural those we are speaking of.

Q. What about Panhandle Eastern?

A. With whom?

Q. With these various independents which we have enumerated.

A. Which one?

Q. Well, the Huber Oil Corrporation.

A. I don't recall just what year that was made. It was made in that general time.

Q. What about the Shamrock contract with the Panhandle Eastern?

A. I believe it was made along in 1936 or 1937.

Q. Now, so much for that type of gas.

Do you know at what price sour gas is delivered for carbon black purposes and gasoline purposes at the wellhead in the Panhandle field of Texas?

Mr. Keffer: Now, if the Examiner please, again this study is in evidence and the testimony is limited to sweet gas in the natural state at the well. Mr. Ford has not purported to testify as to the value of sour gas in any sense of the word. The term is mentioned and in his statement it is carefully limited to sweet gas.

Now, if Mr. March wants to put on some testimony as to what the value of sour gas is, all right. Certainly this is not proper cross examination of this witness.

Mr. March: He speaks of gas which is delivered to pipe lines.

Mr. Keffer: What kind of gas—sweet gas.

Mr. March: Well, I think that sour gas can be used by pipe lines for commercial purposes. He hasn't limited it to sweet gas.

The Trial Examiner: He certainly has.

Mr. March: I want to test the soundness of using sweet gas. I want to know why they only delivered sweet gas.

Mr. Keffer: The fact remains that he did.

Mr. March: I want to know why he did.

Mr. Keffer: Wait a minute. You can put on some witnesses if you want to show the price of sour gas.

Mr. March: I want to know why he limited it to sweet gas.

The Trial Examiner: He is up here testifying as to the market value of sweet gas at the Bivins compressor station which is 7 cents.

Mr March: Where do you see "sweet gas" mentioned there?

Mr. Keffer: All the way through it.

Mr. March: Yes. Now I want to ask him why he limited it to sweet gas. There it is on Page 2 there.

The Trial Examiner: It is limited to sweet gas on Page 2.

Mr. March: I want to know why he limited it to sweet gas, because I don't see any reason—

The Trial Examiner: I don't think it is important, Mr. March.

Mr. March: Then you overrule me? You sustain the objection?

The Trial Examiner: I certainly think that you ought to confine your cross examination to what the witness is endeavoring to testify to here. He is dealing with sweet gas. He is not dealing with sour gas.

Mr. March: Very well, if the Examiner sustains the objection.

Mr. Ford had nothing to do with negotiating the contract with the United States Government on May 17, 1929. (Vol. LXXXX, p. 13744.) That gas is delivered directly from the helium plant to the Amarillo Oil Company near the helium plant site a short distance from the Town of Amarillo, and that gas is also sold to the American Smelting and Refining Company. While the cost of transportation is less from the helium plant to Amarillo than the cost of gathering for Canadian, nevertheless, the condition is such that he thinks it proper to consider that gas. (Vol. LXXXX, p. 13748.)

Mr. Ford has made no study of any gathering cost figures, for, while he is in charge of the physical properties of the gathering system, costs are handled directly from Colorado Springs. (Vol. LXXXX, p. 13751.)

As to the gas sold under the contract of February 26, 1937, between the Amarillo Oil Company and the American Smelting and Refining Company (Vol. LXXXX, pp. 13751, et seq.), that gas is delivered by Canadian to the Amarillo Oil Company at the wellhead under a contract providing for periodical price changes which have approximated 4c or 4½c at the

wellhead. Mr. Ford has no idea what it cost the Amarillo Oil Company to transport that gas to the American Smelting and Refining Company. (Vol. LXXXX, p. 1375[illegible]) In his above quoted statement Mr. Ford testified (Vol. LXXXX, p. 13680) that the price received by Amarillo Oil Company from the American Smelting and Refining Company for this gas is $6\frac{1}{2}$c per Mcf. on a pressure base of 14.9 pounds, or approximately 7.16c per Mcf. when converted to a 16.4-pound pressure base.

Mr. Ford did not include in his calculations the sales price by Colorado Interstate to Colorado Fuel and Iron, as he did not think it proper to go into the Colorado contracts and the various considerations that would be involved. (Vol. LXXXX, p. 13755.)

Mr. Ford used the contract of August 1, 1939, between the Amarillo Gas Company and the General Public Utilities Corporation in his study because he thought it was a good contract to use for the purpose he was intending to convey. (Vol. LXXXX, p. 13758.) He had nothing to do with negotiating that contract. The 7-cent value placed by him at the intake of the Bivins Compressor Station is not for carbon black gas nor for gasoline purposes, but for whatever purpose it could be put to for pipe line use. (Vol. LXXXX, pp. 13767-13771.) He took into consideration in arriving at the 7-cent value the two contracts mentioned in his statement quoted above and the prices specified therein and distances from the wells as compared with the gathering system going in to the Bivins Station. Mr. Ford is not familiar with the exact number of unconnected sweet gas wells in the Panhandle Field nor the number of undrilled leases in the west part of the field. (Vol. LXXXX, pp. 13773 et seq.) He understands there is some Shamrock acreage undrilled because of lack of immediate market. So far as he knows, nobody has attempted to sell gas to Canadian recently. (Vol. LXXXX, p. 13775.) In fixing his market value of 7c at the Bivins intake he made no survey to ascertain future demand upon the Panhandle Field. The 7-cent value at Bivins intake has existed for approximately a 10-year period (Vol. LXXXX, p. 13777), with little change in the wellhead price during that period. Mr. Ford has never personally bought or sold gas in the Panhandle Field. (Vol. LXXXX, p. 13780.)

On redirect examination (Vol. LXXXX, pp. 13781-13787) Mr. Ford testified, with reference to the sale of gas by Shamrock Oil and Gas Company to Panhandle Eastern at a price of 3½c per thousand cubic feet, that Shamrock Company paid its landowners on the basis of one-eighth of 4c in settling on a market value basis; that the Panhandle Eastern lines, both main and gathering, extend into the same territory as the Shamrock's leases, and deliveries are made by the Shamrock, not at any central point, but at numerous gathering and main lines of the Panhandle Eastern.

A further check shows that the Northern Natural Company, and not the Panhandle Eastern, is the largest purchaser of natural gas in the Panhandle Field.

With reference to the contract with Hagy, Harrington and Marsh for 4c at the well mentioned previously, Mr. Ford further stated that delivery is made at one central point on a gathering line of the Northern Natural and delivery is not made at the Northern Natural's compressor plant, but there is a partial gathering by Hagy, Harrington and Marsh. He also stated that under this contract Hagy, Harrington and Marsh reserved the gasoline from which they received some remuneration; that they also extract butane and propane in addition to natural gasoline. Sales are made to the Northern Natural at its compressor plant by the Phillips Petroleum Company at the price of 6c, but the Phillips Petroleum Company extracts propane and butane from that gas before it is delivered to the Northern Natural.

Mr. Ford then stated that the effect of negotiating the royalty contracts with the landowners was to buy the landowners' interests in the gas; in other words, the company is purchasing the landowners' interests. There is a large number of these landowners scattered over the field and these negotiated contracts are considerably more numerous than such a type of contract as exists with the Panhandle Eastern and the Shamrock, as every person who owns a farm or ranch that has a gas well on it, plus every person that has a mineral interest in those lands, is involved in the negotiated royalty type of transaction. (Vol. LXXXX, p. 13786.)

Mr. Ford then stated, upon refreshing his memory, that

the Panhandle Power and Light Company purchases gas in this field which is distributed in the City of Borger, Texas, and for which it pays 7c. This gas is approximately two or three miles from the source of production or the wellhead. The Panhandle Power and Light Company also sells gas at the wellhead for the Town of Dumas, Texas, for 5c.

On further cross-examination (Vol. LXXXX, pp. 13787, et seq.) Mr. Ford stated the Panhandle Power and Light Company purchases the gas referred to above at 7c from the Huber Petroleum Company, with delivery at the city gate, which is two or three miles from the wells, the Panhandle Power and Light Company being a distributing company. Mr. Ford has not seen the contract between the Panhandle Power and Light Company and the Huber Company, but has discussed it with different individuals and does not know what connection there may be between the two companies. (Vol. LXXXX, p. 13791.)

With reference to the sales by the Phillips Petroleum Company to the Northern Natural Company, Mr. Ford does not know whether that involved gas which was originally sour gas; it might or might not have been, but, if it was, the sulphur had been removed from it before delivery.

Mr. Ford was then asked to calculate the price paid by Colorado Interstate for Canadian gas (Vol. LXXXX, pp. 13797, et seq.) under its contract, and stated it to be a slight fraction over 6c. A computation based upon data contained in a letter written by Leon Fuqua, Secretary of the Federal Power Commission, to Mr. Ford was then made of the price paid by the Natural Gas Pipe Line Company of America as being 7.4c per Mcf. Mr. Ford stated he did not know whether that was the delivery price at Gray, Oklahoma. (Vol. LXXXX, p. 13799.)

In addition to the testimony of Mr. Ford on the matters abstracted in this subdivision, Mr. R. J. Wallace, as elsewhere shown in the subdivision entitled, "Present Market Value of Leases Owned by Canadian River Gas Company," testified (Vol. LII, p. 7195) that from his study of the field generally and leases and division orders on gas-producing properties he has found that 4c per thousand cubic feet is a generally adopted price for gas.

With reference to this statement Mr. Wallace, in Volume LIII, pp. 7316, et seq., again stated that in many leases he had examined he found a stipulated 4-cent royalty basis provided, and that from division orders he had seen and his general knowledge through the field he thought 4c per thousand was generally the adopted price. There are more instances where the 4-cent price is not fixed in the lease than where it is fixed in the lease. These are covered by division orders. He has never heard of a posted field price.

Reference is also here made to sheets numbered 113 and 127 of Exhibit 168 introduced by the Commission through witness Lester B. McKinstry. Those sheets show tabulations headed, "Canadian River Gas Company Gas Well Royalties," for the years ended December 31, 1939, and December 31, 1938. In tabular form as to various leases they show "Royalty Interest" and "Value Per Mcf. for Royalty Purposes."

For the year 1939, sheet 113 and its continuation on sheet 114 list 45 different leases. In four of these 45 leases the royalty is a flat 1c per Mcf. In all the other leases the royalty is a percentage. In one of these other leases the royalty is a percentage of a 3.928-cent value; in one a percentage of a 4.5-cent value, and in the remaining 39, a percentage of a 4-cent value.

For the year 1938, 61 leases are listed. Under four a 1-cent royalty is paid; under one, a percentage of 3.9136c; under ten, a percentage of 4.5c; and under the remaining 46, a percentage of 4c.

51. Reproduction Cost New and Less Depreciation of Canadian's Portion of the Denver Line as of December 31, 1938, and as of June 30, 1940

Supra under Title 21 reading, "Reproduction Cost New and Less Depreciation of Colorado Interstate's Portion of the Denver Line as of December 31, 1938, and as Estimated to June 30, 1940," there is abstracted the evidence on this subject as related to Colorado Interstate. Under Title 21, Exhibit 70, by Witness Rhodes, is abstracted and the methods employed by him are there set forth as to Colorado In-

terstate. As he testified and as his written statement shows, he employed the same methods in Exhibit 68 which covers Canadian's portion of the Denver Line.

The reproduction cost new and less depreciation, showing the accumulated depreciation in the several items of plant in percentage, is shown on pages 35 and 36 of Exhibit 68 (omitting from these pages, for the sake of brevity, the accumulated depreciation in dollars and the per cent condition of the property) as follows:

F. P. C. Acct. No.	Description	Reproduction Cost New	Accumulated Depreciation Percent	Reproduction Cost New Less Depreciation
	Natural Gas Production Plant (Attached to Transmission System)			
331-3	Other Production System Structures (Natural Gasoline Plant)	$ 50,143	15.0%	$ 42,622
336	Residual Refining Equipment (Natural Gasoline Plant)	267,982	27.0	195,627
	Total Natural Gas Production Plant (Attached to Transmission System)	$ 318,125		$ 238,249
	Natural Gas Transmission Plant			
351-1	Land	$ 1,460	0.0%	$ 1,460
351-2	Land Rights (Rights of Way)	35,944	0.0	35,944
352-1	Pumping Station Structures	76,336	9.0	69,466
352-2	Measuring and Regulating Station Structures	7,554	11.0	6,723
352-3	Other Transmission System Structures	16,283	19.0	13,189
353	Mains	2,133,289	7.0	1,983,959
354-1	Pumping Station Equipment	467,794	17.0	388,269
354-2	Measuring and Regulating Station Equipment	14,256	11.0	12,688
354-3	Other Transmission System Equipment	30,084	18.0	24,669
	Total Natural Gas Transmission Plant	$2,783,000		$2,536,367

F. P. C. Acct. No.	Description	Reproduction Cost New	Accumulated Depreciation Percent	Reproduction Cost New Less Depreciation
	General Plant:			
370	Land and Land Rights	$ 12,562	0.0%	$ 12,562
371	Structures and Improvements	241,871	19.0	195,916
372	Office Furniture and Equip.	12,759	29.0	9,059
373	Transportation Equipment	37,399	38.0	23,187
374	Stores Equipment	447	25.0	335
376	Laboratory Equipment	4,336	11.0	3,859
377	Tools and Work Equipment	6,317	24.0	4,801
378	Communication Equipment	91,898	16.0	77,194
	Total General Plant	$ 407,589		$ 326,913
	Total of Above	$3,508,714		$3,101,529
	Undistributed Construction Costs	648,481		610,853
	Working Capital	60,000		60,000
	Total Natural Gas Production (Attached to Transmission System), Transmission and General Plants (Exclusive of Going Concern Costs or Value)	$4,217,195		$3,772,382

Exhibit 71 brings Exhibit 68 down to June 30, 1940, without any change in the per cent accumulated depreciation. It merely shows the additions and retirements from January 1, 1939, to June 30, 1940, and reproduction cost new, including working capital, as of that date, is shown as $4,501,969, and reproduction cost new less depreciation $4,016,523.

Exhibit 71, Statement 1, further shows an allocation of general property of Canadian to the Denver Pipe Line, with the result that the reproduction cost new, and reproduction cost new less depreciation, as of June 30, 1940, is as follows:

Item No.	Description	Reproduction Cost New	Reproduction Cost New Less Depreciation
	Natural Gas Production Plant (Attached to Transmission System):		
7	Natural Gasoline Plant	$ 319,306	$ 239,111
8	Natural Gas Transmission Plant	3,007,604	2,726,348
9	General Plant (Allocated to the Denver Pipe Line)	318,034	259,134
10	Total	$3,644,944	$3,224,593
11	Undistributed Construction Costs	673,659	634,814
12	Working Capital	60,000	60,000
13	Total Natural Gasoline Plant, Transmission Plant and General Plant (allocated to the Denver Line)	$4,378,603	$3,919,407

Also supra under Title 21 are set forth Exhibits 231, 231-A, and 231-B by Commission's Witness Hill, as to the transmission line properties of both Colorado Interstate Gas Company and Canadian River Gas Company. Also under said subdivision there is abstracted the testimony of Tamblyn, a witness introduced by the City and County of Denver, as related generally to the structures of both companies. The cost of certain structures at Bivins Station, as estimated by Tamblyn (Exhibit 232), is $278,806, as compared with $355,403, as shown in Exhibit 68 by Rhodes. Exhibit 232 is also set forth in Title 21 supra.

52. **Equivalent Original Cost of Canadian's Production and Gathering Facilities at December 31, 1936, to 1947, Inclusive, for all Gas Except Colorado Interstate's Direct Sale Gas.**

For Canadian there was introduced and received in evidence (Vol. LXV, p. 9348) through the witness, Lusk, Exhibit 193 entitled "Canadian River Gas Company Equivalent Original Cost of Production and Gathering Facilities for Resale Gas Alone at December 31, 1936 to 1947, Inclusive." This exhibit is prefaced by Mr. Lusk's written statement

appearing in the record in Volume LXV, pp. 9308, et seq. From Mr. Lusk's written statement and his examination in connection with this exhibit (Vol. LXV, pp. 9307-9348) it is shown that this exhibit is based upon Exhibits numbered 183 and 184 heretofore abstracted covering the original cost of the producing and gathering facilities at December 31, 1928 to 1939, inclusive, and the original cost of the production and gathering facilities extended through 1947 and upon Mr. Watson's Exhibit No. 121 and his testimony with reference thereto in which is described the producing and gathering facilities needed, 1928 to 1947, inclusive, based upon deliveries at Clayton, New Mexico, to Colorado Interstate for resale gas alone.

This Exhibit 193 shows the equivalent original cost of the production and gathering facilities of Canadian for all of its markets excluding only direct sales by Colorado Interstate on the Denver line. (Vol. LXV, pp. 9345, 9346.)

This equivalent cost at December 31, 1947 shown in detail in the three statements composing Exhibit 193 is summarized as follows: (Vol. LXV, p. 9309)

Original cost of facilities needed for all gas as December 31, 1947 per Exhibit No. 184		$12,030,145
Less deductions for facilities not required for resale gas alone:		
Gas well construction	$156,100	
Field measuring stations	5,250	
Gathering system	48,650	
Undistributed general construction costs:		
Production system	7,751	
Gathering system	984	
Total deductions		$ 218,735
Equivalent original cost of production and gathering facilities for resale gas alone at December 31, 1947		$11,811,410

In the course of his cross-examination MR. WATSON testified concerning Exhibit 121 as follows: (Vol. XXX, Official Transcript, pp. 4119-4127.)

Q. Mr. Watson, as I take it from this statement from its description on the cover, the entire basis of it is applicable to gas sold by the company for resale only?

A. For resale only as applied to the Denver line, as I understand the figures submitted in the various exhibits referred to.

Q. Well, what do you limit this exhibit to, if for anything else than just gas for resale on the Denver line?

A. As far as my estimates were concerned, it is reduced deliveries on the Denver line and it is a survey as to what would be required—what would have been required or will be required under the reduced volumes which were submitted to me as a figure.

Q. Confining all of your assumptions to resale only?

A. Confining my figures to the exhibits as presented to me in Mcf.

Q. In other words, that, of course, differs from what is actually taking place; there is gas sold to main line industrial accounts for resale?

A. There is a different volume sold actually in previous years than what is included in these exhibits to which we refer.

Q. And both in the past as well as the present time? There are large sales of gas sold to straight line industrials on the company's system that are not taken into consideration in this study?

A. As I understand that is what the exhibits state.

Q. What is the number of that exhibit?

Mr. Keffer: 121.

The Trial Examiner: Mr. Watson's exhibit, you mean?

Mr. Lange: Yes.

The Trial Examiner: Exhibit 121, Mr. Lange.

By Mr. Lange:

Q. And that is also applicable to the Chicago line, isn't it? That is, that that line does not confine itself to resale gas alone?

A. I don't know.

Mr. Keffer: May I interpose just there, Mr. Lange? If you will note, Mr. Lange, this exhibit includes all of the Chicago deliveries, all of the Amarillo Oil Company, all deliveries to all market outlets regardless of the type of gas, and except only as to Colorado Interstate it is limited there to resale only as delivered at Clayton. Does that—

Mr. Lange: Yes.

Mr. Keffer: I thought maybe you misunderstood.

Mr. Lange: Very well.

Q. Then the first page of your exhibit; that is, the first part of the written statement, Page 1; now, these annual volumes of sales and peak month deliveries and peak day obligations, where are these figures from?

The Trial Examiner: That is on Page 2, Mr. Lange.

Mr. Keffer: He has explained that, yes.

Mr. Lange: It begins on Page 1, an un-numbered page.

The Trial Examiner: But he advises you the source of that table on Page 2.

Mr. Lange: Oh, yes, I see it now.

The Witness: The source of each of these volumes is indicated on Page 2 and 3.

By Mr. Lange:

Q. Now, on Page 3 of your Exhibit 121 you state this: "Aside from the above stated deliveries of gas to be made at Clayton, New Mexico for Colorado Interstate Gas Company, which includes only resale gas, all other production and sales requirements and peak month obligations of Canadian River Gas Company for the purposes of this statement have been taken exactly as they appear in Exhibit No. 78 and Exhibit No. 79 * * * and as shown in Exhibit No. 80 * * *

"The conclusions stated hereinafter with respect to changes in required producing and gathering facilities which would result from the production of deliveries at Clayton, are also based upon information and data regarding the

company's producing and gathering facilities set forth in Exhibit No. 89, and Exhibit No. 94 * * * "

What do you mean with respect to "changes required in producing and gathering facilities" there? What changes do you have in mind?

A. There would be less gathering line. If I deferred drilling a well I would defer building the gathering line.

Q. Is that the change you have in mind that is contemplated there?

A. We would defer drilling certain wells and their gathering line and gathering facilites.

Q. All right. What factors did you take into consideration in determining that? For instance, what consideration did you give the reductions in pressures, if any, of the wells?

A. I took the same pressure—rock pressure decline that I had assumed in Exhibit No. 94.

Q. And what consideration did you give the fact as to the actual industrial straight line sales withdrawal?

A. I merely used the reduced volume in estimating my drilling requirements and gathering requirements in the figure which was presented to me in these exhibits.

Q. Well, what consideration did you give your volume of industrial sales?

A. That is not included in my figures. It is merely a reduced total production which I was asked to supply.

Mr. Keffer: Right there, Mr. Lange, you said "what consideration did you give industrials?" Are you referring to the Colorado Interstate Gas Company only?

Mr. Lange: First the Colorado Interstate Gas Company and then all of the industrial sales.

Mr. Brock: That are not resale?

Mr. Lange: That are not resale. I have reference to main line industrial sales.

The Witness: As far as Canadian River Gas Company is concerned, it made no difference to me where it was going.

By Mr. Lange:

Q. What percentage of the total sales were for direct main line industrials on the Colorado Interstate?

A. I did not figure that. Here is all that my figures are based on: My estimates are based on—my estimate is a reduced production requirement. As far as Canadian River's estimates are concerned, it made no difference whether that was industrial sales, main line sales or gas leakage, or whatever it might be—I merely had to supply a certain volume of production and these estimates of the required producing gas wells and other facilities to supply this estimated market are shown in these various exhibits.

Q. Then you took no account whatsoever as to the demand on the system for the direct main line industrial sales?

A. Not in Exhibit No. 121 unless some of the figures in these exhibits included it, which I understand do not, but my figure is merely supplying a reduced volume of gas over what I had in Exhibit No. 94.

Mr. Keffer: May I ask a question?

Mr. Lange: Yes.

Mr. Keffer: I believe you may be talking about different things. I think a question or two would clarify the point.

In respect to all other market outlets other than Colorado Interstate Gas Company you did take into account the whole volume that was delivered to those market outlets, did you not, Mr. Watson?

The Witness: Certainly, because the exhibit to which I referred took all of them into it.

Mr. Keffer: If those market outlets, such as Natural Gas Pipeline Company and Amarillo Oil Company, and such others as you might have, sold industrial gas or sold gas directly from the pipe line, then your computation necessarily took industrial gas on those outlets into account, did it not?

The Witness: Whatever was shown as being produced for those various markets was included.

Mr. Keffer: Does that clarify it?

Mr. Lange: That is part of it.

Q. I want to know with reference to production of gas, what effect on this Exhibit No. 121 does the production of

gas in the field and deliveries from wells to main line industrials have?

A. I have not mentioned main line industrials. This is merely a reduced obligation—

Q. Are there any main line industrials in the field?

A. Are there—

Q. Are there any wells that deliver to main line industrials?

A. What do you refer to as "main line industrials"?

Q. The American Smelting & Refining Company.

A. I know nothing about the Amarillo Oil Company's market.

Q. You don't know about it?

A. No.

Q. Is that a main direct line customer or a resale customer?

A. I know nothing about the distribution of Amarillo Oil Company's requirements at all.

Q. How have you construed a main line industrial as between an industrial for resale?

A. I explain again that I don't know what becomes of the gas after being produced. It might go to industrials for all I know.

Q. You have attempted here to limit yourself to what you consider exclusive main line resales—

Mr. Keffer: On the Colorado Interstate only.

Mr. Lange: That is right, exclusive resales.

The Witness: I presumed from reading our exhibit here it excludes other than resale gas. I have nothing to do with determining those figures as to whether it is industrial, resale or compressor fuel, or what. I was merely to supply this production.

By Mr. Lange:

Q. Then you don't attempt to make any assumption with reference to what is the status of an industrial; as to whether it is a resale industrial or a main line industrial?

A. As I understand it, the Canadian River Gas Company is not interested in what disposition is made of the gas which they produce.

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On cross-examination MR. WATSON further testified: (Vol. XXX, Official Transcript, pp. 4139-4141.)

Q. Now, the A-26, Bivins?
A. That was the exploratory well.
Q. Oh, yes, that was the dry hole. That is not a producing well?
A. No.
Q. You say that is the exploratory well on the Amarillo lease?
A. No, sir.
Q. What well is that?
A. Bivins A-26 was located in the first exploratory block that was drilled.
Q. I see, that is below the staggered line, the staggered black line on Exhibit No. 95?
A. Yes, sir.
Q. That was drilled in 1939?

The Trial Examiner: I think the answer Mr. Watson gave you might be confusing in the record. As I recall it, you asked him the number of the well that was drilled on the Amarillo lease. Was that the Bivins?

The Witness: No, it was not drilled on the Amarillo lease.

The Trial Examiner: That is what I thought.

By Mr Lange:-

Q. This was a dry hole drilled on the Bivins lease?
A. The Bivins lease, yes, sir.
Q. And you say that would also have been drilled in 1939 in face of this new program?
A. According to lease requirements it would have been drilled in 1939.
Q. That is under the Bivins consolidated?
A. Yes, sir.
Q. And that is one of those driling blocks that could either be drilled or released?
A. I believe that is correct—it was not released, however, as it was drilled.
Q. But it was the option of the company to have released it if it so desired.
A. I wouldn't be sure of that first well.

Q. Is this the first one under that?
A. Under the Bivins consolidated lease?
Q. Yes.
A. Yes, sir.

• • • • •

Mr. Watson further testified as follows: (Vol. XXX, Official Transcript, p. 4145.)

Q. The next one is Amarillo No. 1.
A. Amarillo No. 1 is after Killgore A-3 on my list.
Q. Is that the well drilled, resulting in a dry hole?
A. Yes, that was the Amarillo test.
Q. That was the well that was drilled on the lease executed by the City of Amarillo to the Amarillo Oil Company concerning which we inquired about some days ago?
A. Yes, sir.
Q. This is the photostatic copy of that lease, the agreement under which the well was drilled?
A. Yes, sir. That's what our Land Department gave me as the basic lease under that city of Amarillo, Texas. It is recorded here as Amarillo No. 1.

The Trial Examiner: Do you wish that marked as an exhibit for identification, Mr. Lange?

Mr. Lange: Yes.

The Trial Examiner: It will be marked as Exhibit No. 122, for identification.

• • • • •

Mr. Watson further testified as follows: (Vol. XXX, pp. 4156-4159.)

Q. Now, Mr. Watson, the company proceeded wtih the drilling and actually completed the drilling of that Amarillo No. 1, didn't they?
A. Yes, sir.
Q. And what was the approximate total cost of that well?
A. Approximately $49,000.
Q. Approximately $49,000?
A. Yes.
Q. And just so that it ties right in at that point—it may be in the record heretofore—what was the approximate time that that well was completed? what month and year?

A. Early in 1940.

Q. Early in 1940. Do you recall the month?

A. No. I can find that in the record here somewhere. The City of Amarillo No. 1, completed June 17, 1940.

Q. Completed June 17, 1940?

A. Yes, sir.

Q. Now, then, if that well had been brought in as a producing gas well—strike that.

Are there any producing gas wells right in that locality on any of that acreage in that locality?

A. The Helium structure produces about ten miles northwest of that location.

Q. Not any gas producing well is in existence on any of the yellow Bivins blocks on this map, Exhibit No. 95, is there?

A. No, sir.

Q. And you stated that the company had not heretofore drilled any of those blocks on the Bivins acreage?

A. Oh, yes.

Q. Contiguous to the acreage on which this Amarillo No. 1 was drilled?

A. That block to which you are referring on that Bivins consolidated lease—

Q. Yes.

A. —is not all contiguous to that City of Amarillo test. That block is spread out all over Potter County.

Q. But the block itself, all of which is contiguous to one block of Bivins acreage—

A. Some of the acreage is contiguous to the City of Amarillo test but not all of it.

Q. That's right, but not on any one of those sections in that yellow acreage designated on the map, Exhibit No. 95, contiguous to or adjoining the acreage on which Amarillo No. 1 was drilled has heretofore been drilled by Canadian River Gas Company?

A. No. There are only two thousand acres of that block contiguous. The other eight thousand acres is somewhere else.

Q. I see, but I want to get definitely fixed that there is no well drilled by Canadian River Gas Company as a test on any of this Bivins acreage contiguous to Amarillo—

The Trial Examiner: What is that section number, Mr. Lange?

Mr. Lange: Section 190.

Q. Now, then, if this well Amarillo No. 1 had been brought in as a producing gas well, where would delivery of that gas have been made?

A. Probably would have been made on the Amarillo Oil Company lines supplying Amarillo with gas, if there had been a gas well.

Q. If it had been an oil well, according to this Exhibit 123, the Amarillo Oil Company having retained the oil rights, what would have happened to the well?

A. I don't know. I suppose the Amarillo Oil Company would have had an oil well.

Mr. Watson further testified: (Vol. XXI, pp. 2998-3000.)

Q. Now, then, this block of acreage of 10,102.70 acres was released by the company in the exercise of its option under the Bivins lease not to drill that well, but, rather, to release this acreage and eliminate it from the lease?

A. According to that instrument, that is correct.

Q. So, under that the company would not have to—strike that.

In view of this release, the company did not have to drill that well and spend the amount of money that you had indicated as a minimum amounting to $30,000 per well that would have to be spent for the drilling of that well?

A. According to that instrument, that is correct,

Q. The only other well they drilled under these exploratory provisions resulted in a dry hole?

A. That is correct.

Q. Now, then, as I understand it, the company has the privilege under the Bivins Consolidated lease to release a similar block of acreage each year rather than drill and expend that amount of money in a minimum of at least $30,000? They could do that, couldn't they?

A. (Pause.)

Q. They could release the acreage rather than spend the money for the drilling of the well, couldn't they?

A. I believe that instrument states that:

Q. And if that is correct, the provision of the lease provided that that could be done with reference to these remaining four wells that you included in your drilling program, couldn't it?

A. Not according to that instrument. That covers only one 10,000-acre block.

Q. It covers only one 10,000-acre block?

A. Yes.

Q. But the company could proceed in like fashion for each of those four years if they desired?

A. I do not know whether that is right or not.

Q. You don't know?

A. No.

Q. You wouldn't say they could not do it?

A. No.

Q. It depends upon how long the lease reads?

A. That is right.

Q. You do know they did it in this one instance?

A. Yes, sir.

Q. And if they had the privilege to do it under the lease in this one instance and would exercise such an option each year, it would obviate the drilling of four wells out of their 1941 well program?

A. It would eliminate the exploratory wells.

Q. Yes, or a total minimum cost estimated by you as \$120,000, being \$30,000 per well?

A. That is correct.

* * * * *

Mr. Watson further testified as follows: (Vol. XXI, pp. 3044-3046.)

Q. Which lines of these wells do supply gas to the Chicago line or Denver line or both?

A. We didn't segregate our market. Our system is interconnected to where I am drilling for all market outlets.

Q. Your system is inter-connected to all market outlets?

A. Yes.

Q. If these particular wells happen to be in some certain area the gas will flow through the gathering line and through the main line at certain times deliverable only to the Denver line or only to the Chicago line; isn't that true?

A. Any delivery to one line would relieve a load to some other line. The system is inter-connected. Any well in that way is drilled for all markets.

Q. Regardless of where that well is located on the gathering line?

A. Yes, because they are all inter-connected.

Q. Your gas can be diverted to either the Chicago line or the Denver line?

A. If you put a well on the system which definitely has to go to Denver you have relieved a well on the Chicago system which goes to Chicago or Amarillo.

Q. According to Mr. Hendee's estimate, upon which you relied, there is quite a larger percentage of gas that is estimated to go to the Chicago line than to the Denver line as the years go on; isn't that true?

A. It is whatever the exhibit shows, yes. In the future years, according to Exhibit No. 80 by Mr. Hendee, there is to be more gas delivered at Gray, Oklahoma, than there is to be for the Denver line; at least after 1944.

Q. Therefore most of the wells will have to be drilled to take care of that particular increase?

A. They will be drilled in an area removed from the Chicago connection.

Q. But they are to supply that particular Chicago increase?

A. Yes. My figures are based on total market without any regard as far as the drilling program is concerned as to where the gas is going.

Q. Without any regard as to the ultimate destination?

A. Yes, sir.

Canadian's Witness Wallace testified as follows: (Vol. LII, pp. 7269-7275.)

By Mr. Lange:

Q. There is no producing gas well that has ever been drilled on what you classified under "C" in the Bivins lease?

A. No.

Q. Do you know the provisions of the Bivins Consolidated lease and what has to be done by the lessee in connection with that lease?

A. Yes, they are to drill or cancel.

Q. To drill or cancel?

A. Yes.

Q. There is no definite obligation for them to drill if they desire to exercise an option to cancel?

A. No.

Q. In any year they so desire they can cancel that particular drilling block or that block of acreage by so notifying the lessor?

A. That is correct.

Q. Without drilling and without any obligation?

A. That is right.

Q. And without any way affecting the remainder of the leasehold?

A. That is right.

Q. Then you still believe that in the light of the history of that particular acreage that you classified as "C" under Bivins what has happened to it is it is still worth $1 an acre?

A. Yes, I do, because it covers such a large acreage and there are so many unknown quantities. It may be possible a pool may be discovered where that acreage is located.

Mr. Keffer: Could I interpose a question there, Mr. Lange?

Mr. Lange: Yes

Mr. Keffer: Would you come to the map which is marked as Exhibit No. 95 and look in Section 37 in G-M Block 5 Potter County, and tell me what you find there on the Commission's map?

The Witness: A gas well is marked there.

Mr. Keffer: What is the size of that gas well?

The Witness: It came in originally purported to be 7,000,000 cubic feet. I don't know what it is at this time

Mr. Keffer: What is marked on the map?

The Witness: 7,000,000.

Mr. Keffer: 7,000,000?

The Witness: Yes.

Mr. Keffer: Is that well south of the fault line?

The Witness: It is south of the fault line and it is a very deep well.

Mr. Keffer: How far is it from a substantial portion of this "C" acreage that is contained in the Bivins Consolidated lease?

The Witness: Approximately a mile and a half or a mile and three-quarters.

By Mr. Lange:

Q. Whose well is that? Who owns that well?

A. It is purportedly owned by the Humble. I do not know the ownership of it just now. It may still belong to Humble.

Q. Going back to this 190 acres immediately north of the city of Amarillo, do you know anything about the well that was drilled by Canadian River on an acreage adjoining that?

A. Yes, I observed the drilling of that well from practically top to bottom.

Q. You did?

A. Yes.

Q. That was a dry hole?

A. Yes, sir.

Q. And what other drilling operations took place on that particular acreage?

A. On that particular lease?

Q. Yes.

A. There was an old well drilled about 2,000 feet deep, as reported on that map, that seems to correspond with the place on the map where I have indicated there. I think it was drilled by the City of Amarillo. It was a dry hole. It was only drilled 2,000 feet deep.

Q. When was it drilled?

A. I don't have the history of it.

Q. Was it drilled prior to the other well?

A. It was drilled prior to the well of the Canadian River.

Q. How far is that acreage from the nearest producing gas well?

A. This map—if this map was marked up to date—I don't believe it is—indicates it is about seven or eight miles from the helium gas field that is controlled by the United States Government.

Q. Is there any producing gas well closer than that?

A. Not unless that map is not accurate. I don't believe we have marked our map accurately, at least, I have not on the helium pool. I would have to check it. There are more wells in on the helium pool than I see on that map, but I don't know the location. I will say they are not close to that acreage as they are several miles removed.

Q. Now, the Bivins Consolidated lease aside from this acreage that is below the fault line, covers acreage above the fault line that is in the producing area, doesn't it?

A. Yes.

Q. And as you stated, this group of acreages that are covered by the Bivins lease below the fault line are subject to the company releasing them if they don't drill or pay delay rentals?

A. Yes.

Q. And you have given that acreage a value of $1 an acre?

A. Yes.

The Trial Examiner: You said something about there being a carrying charge, Mr. Wallace. What do you mean by that?

The Witness: That is a term we use in our industry. We quite often have leases that we don't consider of very much value but yet there is a remote possibility, particularly if they are scattered over large areas where there are deeper sands or something that they might come in; but yet at the present time, there is nothing to indicate any lease value; for the fact that they are part of one large lease or within or are checker-boarded, we usually call it a carrying charge or a carrying value of a dollar an acre. It doesn't represent the commodity. The oil and gas rights might be worth more, but it might cost more than that to secure a lease from a landowner so we call that a carrying charge in oil field terms.

By Mr. Lange:

Q. When you speak of a carrying charge, that is not to be in any way related to what you term market value?

A. Yes, it goes into the market value with a lease of 313,588.38 acres and having 64,000 of it that is not determined as proven acreage and not in the generally accepted proven acreage. I believe that all Class C acreage probably would sell. The 64,000 acres covers such an enormous area as it does there might be a possibility of some pools coming in.

Q. Let's take the Class C acreage standing alone, what about that?

A. That 64,000 acres amounting to $64,000. I believe there is enough evidence—the well we spoke of I presume is the Humble which will give you some encouragement—

Mr. Keffer: Just a correction there. The Humble at one time owned that but has been sold to the Government. It serves as part of their helium reserve.

The Witness: I don't know what disposition was made of it. Another factor is that some of the dry holes that have been drilled in there have had some small showing of gas.

By Mr. Lange:

Q. You still value them at $1 an acre?

A. Yes.

Q. Do you think it is good operating management for Canadian River Gas Company to just release a whole block of 60,000 acres like that because they don't want to drill on it?

A. Yes, I think with the enormous proven acreage they have I would release it.

Q. You would just let that go and charge it off?

A. I would.

Mr. Keffer: I didn't get your answer.

The Witness: I said, yes, with a proven—with a large proven acreage I think I would personally consider the lease practically of the same value and accept $64,000 as it is.

Canadian's WITNESS, J. D. THOMPSON, JR., testified as follows: (Vol. LXXVI, pp. 11168-11170.)

Q. Did you recommend the dry hole drilled down here by the city limits of Amarillo?

A. Yes.

Q. I notice Canadian River has some acreage there. Did you think possibly that there was gas there?

A. Yes.

Q. You wouldn't recommend the drilling of a dry hole if you knew there wasn't any gas there, or had good reason to believe there wasn't any gas there, would you?

A. No. You drill a great many dry holes in exploratory work. That's how oil and gas fields are found is just to hop out in the middle of an undrilled area and see what you get, and the use of geology and geophysics merely reduces the hazard a little bit.

Q. Now, so much for that end of the field south of the Potter County fault line.

Mr. Keffer: I wonder if I could ask a question on the Amarillo well?

Mr. March: Why, certainly. Go ahead.

Mr. Keffer: Do you know whether or not, Mr. Thompson, that well showed both oil and gas?

The Witness: Yes, they had a show of oil and a show of gas, and it showed a favorable structure situation, just about as had been anticipated from our work, but where these shows occurred the porosity was so limited—I don't suppose there was more than six inches of formation that showed any porosity at all and that was very low porosity.

MR. THOMPSON further testified with respect to the exploratory drilling blocks contained in the Bivins Consolidated Lease as follows: (Vol. LXXVI, pp. 11162-11165.)

Q. I have one other question here about your marginal area. I notice Canadian River's acreage extends way down outside the bounds of the field, the southern boundary of the field. Do you consider all that acreage worthless?

Mr. Keffer: To which acreage are you referring?

Mr. March: The acreage of the Canadian River Gas Company below the southern boundary of the field.

The Witness: No.

By Mr. March:

Q. What do you mean by saying it is not worthless if it is outside the boundary of the field?

A. In my opinion it has oil and gas possibilities, although it is not proven.

Q. It borders on the Potter County fault, doesn't it?

A. Yes.

Q. I thought you said as you got to the edge of the fault your pay played out.

A. I did say that and I meant it, but here is the situation: Below the Potter County fault line we have the situation down here in Block 6, D S & F Survey, north of the town of Gentry, Potter County. They have developed a gas field which contains natural gas with a considerable per cent of helium in it which is now owned and operated by the United States Government.

I would say local structural high which has trapped a large quantity of gas—

Q. You are talking about the helium dome?

A. That is right, the helium dome.

Q. That is about how many miles from the edge of the field?

A. The productive part of the helium dome is approximately 11 miles from the border of the field, however, in Section 37, Block 5, G. & M. Survey, Potter County, a well was drilled which originally had a good flow of gas but was junked or abandoned, which extends that field up to within 5½ miles of the Potter County fault line.

I noticed—

Q. Mr. Thompson—

Mr. Spencer: Mr. March, he hadn't finished his answer to your question as to why this particular area had a possibility of oil and/or gas production, although not proven.

The Witness: I know from the structural situation in that area—I know that the helium dome, as they call it, and the

well in Section 37 that I have just described are both situated on an anti clinal fold—or a single anti clinal fold. The fold has two local highs on it, two local domes. The one in the helium dome field itself is larger than the one around the well in Section 37, but they are both situated on the same anti clinal structure which has an axis running from southwest to northeast approximately at right angles to the Potter County fault line.

Now, it has been quite a problem to me to try to evaluate the oil and gas possibilities of the Canadian River acreage below that fault line. I have spent a lot of time considering it and there have been surface geological surveys made in areas where we have outcrops that permit that and certain areas have shown favorable conditions from the standpoint of surface geology.

I have also taken into consideration the favorable indications from the standpoint of subsurface geology such as this anti clinal structure that I have already described, and then there has also been made a magnetometer survey which indicates certain favorable areas and that has been further checked by a torsion balance survey which indicates favorable areas and in several instances these favorable indications by these various methods coincide in a given area and that makes me very reluctant to dispose of that acreage until we have had test wells drilled, and even though the results of one test well on one particular area might turn out to be a dry hole, it might develop information which would cause me to make—or recommend a location in that immediate area not far from the dry hole.

I think that is all, Mr. March.

On cross-examination Mr. Lusk testified: (Vol. LXV, pp. 9311-9313.)

Q. Your Exhibit 183 and 184 are intended to cover the entire operation of Canadian River Gas Company, aren't they?

A. Yes, sir. One is the original cost of the—

Q. I mean the entire property of the Canadian River Gas Company, whereas your Exhibit No. 193 attempts to limit

what you term original cost of production and gathering facilities of Canadian River Gas Company for resale gas alone.

A. Exhibit 193 limits the facilities of the Canadian River Gas Company to resale gas only.

Q. Now, I think in connection with Exhibit 183 and Exhibit 184 you stated that those—strike "those"—that the term "original cost" as applied by you on those exhibits was in fact utilizing the book cost as the company set up these items with whatever adjustments had been made?

A. I think I stated that these were the actual cash payments made by the Canadian River Gas Company.

Q. As reflected on the company's books?

A. That is correct.

Q. With whatever adjustments that may have been made?

A. That is right.

Q. In connection with Exhibit No. 193 you added the words "equivalent original cost, production and gathering facilities for resale gas alone." Just exactly what do you contemplate by the word "equivalent"?

A That term was used in the case of Canadian River Gas Company and the Colorado Interstate Gas Company in connection with the transmission line from the Bivins suction, to Clayton Junction.

The term "equivalent original cost" was used. It is taking the original book cost from 1936 in this Exhibit No. 193 and then applying Mr. Watson's estimate as described by him in Exhibit 94 and Exhibit 121 and carying it through, and that is the reason for the term "equivalent original cost."

Q. So when you use that portion of the phrase in the sentence "original cost" of those properties, you are using that phrase "original cost" in the same sense that you used it in connection with Exhibit 183 and 184?

A. That is correct, yes, sir.

Q. And you don't in the use of that term subscribe to the use of it in the Commission's Uniform System of Accounts for natural gas companies?

A. If the term "equivalent original cost" was used—

Q. Original cost.

A. No, sir, these are original costs to the Canadian River Gas Company.

Q. As you define the term in your own mind?

A. That is correct.

Q. Turning again to your Statement 1 of Exhibit 193, where you have entitled it "Equivalent Original Cost of Production and Gathering Facilities for Resale Gas Alone, at December 31, 1936 to 1947, Inclusive," what resale gas do you contemplate there?

A. That is all covered in exhibits that have been previously submitted by Mr. Beardsley, Mr. Hendee, and the facilities which were covered in Mr. Watson's Exhibit No. 121.

Q. What I want to particularly know is whether that confines itself to the resale gas on the Denver line.

A. Yes, sir.

Mr. Lusk further testified: (Vol. LXV, pp. 9318-9323.)

Q. Now, then, going back again to the production system properties on Statement 1, that first item, Account 205, Leaseholds, that is the total item in that account for each of the years 1936 through 1939, and the 1939 figure is projected all the way through 1947, isn't that correct?

A. That is correct.

Q. This total of $5,305,263 is the figure as per books under Item 205, Leaseholds, isn't it?

A. That is correct.

Q. That embraces all leasehold properties for Canadian River Gas Company in all of its operation, doesn't it?

A. It embraces—

Q. It is utilized in all its operations?

A. That is the book cost and actual payment made by Canadian River Gas Company as of that date. That is the December 31, 1936 balance.

Q. You stated a while ago that this exhibit confines solely to resale gas on the Denver line alone, didn't you?

A. That is right.

Q. Where is the resale gas that is going to Chicago to come from? From what leaseholds will it come?

A. In accordance with Mr. Watson's Exhibit No. 121 he does not make any distinction or he could not say—he does say, rather, that the only material change that would be made for resale gas would be the deferring of certain well drilling and the elimination of other well drilling.

Q. That is true, that comes in Account 212 later, but what I wanted particularly to know at this time from an

accounting standpoint was from what leaseholds this resale gas that goes to the line is going to be taken from since these leaseholds that are set up here in dollars include the whole of the company's leasehold account?

A. This includes the entire leasehold account of the Canadian River Gas Company, that is true, and I understood Mr. Watson's exhibit 121 would require all of these leaseholds for the production of resale gas alone for delivery to the Colorado Interstate Gas Company at Clayton.

Mr. Spencer: Mr. Lusk—this record is getting bad I am afraid—what we are talking about is all of the markets of the Canadian River Gas Company, all of the production, but only one change to eliminate the direct sale of gas on the Denver line. Isn't that correct?

The Witness: We are eliminating the direct sale on the Denver line alone, that is correct.

Mr. Spencer: But outside of that there is no change in any of the production requirements of any other markets the Canadian River Gas Company has?

The Witness: That is right. That is brought out by Mr. Watson's exhibit.

By Mr. Lange:

Q. Yes, Mr. Lusk. You are assigning the cost of the entire leaseholds to this resale gas on the Denver line alone?

A. That is what I am doing, yes, sir.

Q. I want to know what portion of the cost of the leaseholds is assignable to the resale gas that won't be delivered over the Denver line.

A. Well, for the resale gas sold other than the Denver line, I don't know as I could make an allocation.

Q. You don't know that you could make an allocation?

A. No, sir.

Q. You recognize the fact, though, that resale gas that doesn't come off the Denver line would be taken off of those leaseholds?

A. I recognize that.

Q. What cost would you assign to that particular gas under leaseholds?

A. That is one of our problems. That is still a problem, that allocation factor.

Mr. Spencer: For the purposes of this study you have made no assignments or allocation whatsoever?

The Witness: That is correct.

Mr. Spencer: There is no elimination except direct sale gas on the Denver line?

The Witness: There is no elimination except direct sale gas.

By Mr. Lange:

Q. You have treated cost of these leaseholds in your Statement 1, Exhibit 193, both the actual 1936 through 1939 and then the projection through 1947 as embracing the entire cost of those leaseholds?

A. That is correct, yes, sir.

Q. And you are attributing that entire cost to the facilities for the production and gathering of gas for resale on the Denver line alone?

A. That is right.

Q. In that respect, then, you are in fact allocating all of it for that particular purpose alone?

A. In this statement here the only item that I eliminated is the direct sale gas.

Q. So it in effect resolves itself in that amount to gas sales on the Denver line as far as leaseholds are concerned?

A. As far as leaseholds are concerned.

Q. As a matter of fact it could—strike that.

This exhibit intends to confine itself to resale gas on the Denver line alone but as a matter of fact the company does have sales of resale gas that have their destination in the Chicago market?

A. I think that is correct, yes, sir.

Q. You give no consideration to that factor in this Exhibit No. 193?

A. No, sir.

Q. You give no consideration—strike that.

When you attribute this entire leasehold cost set forth in Statement 1 of this exhibit to the resale gas for the Denver line alone you are not giving any consideration to the fact that the gas sold by Canadian River Gas Company for all other uses—strike out "other uses"—for direct sales

both on the Denver line as well as on the Chicago line are taken from these same leaseholds?

A. All of the gas, no matter where its ultimate destination is, was taken from the leaseholds, yes, sir.

Q. So in following your classification here you are basing it entirely on Mr. Watson's Exhibit No. 121?

A. Yes, sir.

Q. And you are not applying any judgment figure of your own?

A. None whatever.

Q. Purely as an accounting problem, or, rather, as an accounting matter, wouldn't you ordinarily attribute the proportionate part of these leasehold costs to direct sales made for the Chicago market as well as direct sales made on the Denver line? Wouldn't they be attributable to those leasehold costs?

A. I don't think there is any doubt about some proportion of it, but what the proportion is, I don't know, as I haven't attempted to allocate it.

Q. There has been no attempt made to do that in this exhibit?

A. No, sir.

Q. Nor to provide for it?

A. No, sir.

Mr. Spencer: You don't mean to say you wouldn't know later after you give it further study, Mr. Lusk?

The Witness: That is still one of my problems.

Mr. Lusk further testified as follows: (Vol. LXV, pp. 9329-9331.)

Q. Let me ask you right in connection with that Statement 2, under the deductions, especially under Well Construction and Equipment, this question: These dry holes that are to be drilled on that Bivins acreage, are they deducted here or what treatment have you given them?

A. They were eliminated in their entirety. On Exhibit No. 121 Mr. Watson's program calls for 49 wells on Page 6. Up to 1939 there were eight wells, Column 1 having 4 and 3 and 1. That leaves 41 wells and there are 10 wells—7 new wells, rather, and existing wells drilled, 2, 3, 1, 1; that leaves 34 wells out of Mr. Watson's program for 1939.

From that all of the exploratory wells have been taken out.

Q. Why would you classify these exploratory wells or dry holes—strike that.

Why would you attempt to designate whether the exploratory wells or dry holes should be attributed to the direct sale gas or to the resale gas? How do you reach that conclusion as to which of those two categories they should fall into?

A. Dry holes or exploratory wells do not enter into the computation of fixed capital for original cost of gathering system for resale gas alone. The exploratory well drilling cost is treated and has been treated in all of the exhibits as an expense.

Q. As an expense?

A. Yes.

Q. You have treated them so in your previous exhibits in that manner?

A. That is right.

Q. Now, then, with reference to wells that are to be drilled and that are going to be produced in commercial quantities, how do you determine which of those should be attributed to the resale gas for the Denver line alone or for other purposes?

A. Well, Mr. Watson's exhibit brings that out. I am quite sure it does. He has existing wells drilled 1937 to 1939, Page 6, Exhibit 121. Beginning with 1940 there are 2 wells; 1941, 3 wells; 1942, 1 well; 1943, no well; 1944, 1 well. That consists of seven wells. Those seven wells are shown on Line 5, wells not needed.

Mr. Lusk further testified as follows: (Vol. LXV, pp. 9333-9334.)

Q. Where does his program contemplate the drilling of any wells during that period for resale gas alone to the Denver line?

A. He doesn't. In Exhibit 183 and Exhibit 184 we contemplate for all gas the actual drilling required under Mr. Watson's Exhibit No. 94.

Q. For all gas?

A. That is right.

Q. That is what I am getting at. I want to know where he provides for the drilling of any additional wells for resale gas alone for the Denver line.

A. He doesn't. We are taking out wells from the all gas program.

Mr. Lusk further testified as follows: (Vol. LXV, pp. 9341-9343.)

Q. This exhibit, as you stated, was prepared to reflect how you would determine the equivalent original cost of production and gathering facilities for resale gas alone and in the preparation of that exhibit do you give any consideration to what an equivalent original cost of production and gathering facilities for direct sales of gas alone would amount to?

A. No, sir, not in this exhibit. There is a direct sale exhibit in all—it is for all gas, rather, not direct sale.

Q. You arrived at that total under your method by a process of elimination?

A. There again I don't feel that I ought to say anything at the present time on allocation between direct sale and resale gas.

Q. Have you made any study of what an equivalent original cost of production and gathering facilities for direct sale gas would be?

A. No, sir.

Q. And you have not given that any consideration at all in the preparation of this exhibit?

A. None whatever. This is strictly resale gas.

Q. And, of course, that is purely hypothetical?

A. Well, we still have that stone wall to hurdle as to just what allocation can or cannot be made.

Q. The Canadian River Gas Company does not in effect limit its sale of resale gas alone?

A. It does not.

Q. It has not in the past and as far as you know does not contemplate doing that in the future?

A. I wouldn't attempt to guess at it, guess at the future policies of the Canadian River Gas Company.

Q. You have projected what you considered they were going to do in the future in 1947 on resale gas alone. You know very well that they don't expect to just sell resale gas alone during that period, don't you?

A. It is very probable that the direct sale gas will drop out. Some of the contracts expire before 1947.

Q. What I mean is this: The Canadian River Gas Company will not limit its sales to resale gas alone for the projected years through 1947?

A. I don't believe they will unless a contract expires.

Q. You know as a matter of fact they are not intending to limit their sales to resale gas alone during that period? As far as you know they don't intend to limit their use of these production and gathering facilities for resale gas alone during that projected period?

A. I don't believe they will. I don't believe that is contemplated.

Q. In connection with the Canadian River Gas Company's sales of gas for resale—I mean, the resales as contemplated under the use of these facilities set up in this exhibit—does Canadian River Gas Company fix its price of gas for resale on the basis of this exhibit?

A. No, sir.

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53. Equivalent Original Cost of Canadian's Portion of the Denver Line for all Gas Except Colorado Interstate's Direct Sale Gas, 1928 to 1947, Inclusive.

Exhibit 134, Witness Lusk (Vol. XXXI, p. 4269), covers the original cost of "a Denver line for resale gas only" and has been abstracted supra.

It is there shown that such cost of Canadian's portion of such line, as shown on Statement 1, Part 2 of Exhibit 134 as of December 31, 1939, is $3,933,234, and on this same Statement such cost is shown year by year, 1940 to 1947, inclusive. For 1940 and 1941 it is $3,966,644; for 1942 it is $4,095,644, and for each of the years 1943 to 1947, inclusive, it is $4,307,737.

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54. Working Capital of Canadian River Gas Company.

Supra under Title 22, "Working Capital of Colorado Interstate," there is described the method employed by Witness Rhodes in Exhibit 70 in determining working capital requirements for Colorado Interstate Gas Company. The same method was used by him in determining working

capital for Canadian River Gas Company. He determined that $190,000 arrived at by the method so described was the minimum requirement, $60,000 of which was determined as the necessary working capital in the operation of the transmission and gasoline plants. (Exhibit 68, page 32.)

This matter was further dealt with in Exhibit 192 by Witness Lusk. On the basis of taking one-eighth of the actual operating expenses for the years 1935 to 1939 inclusive, and, in addition, the cash balance and materials and supplies on hand at December 31 of each year, the averages for the three years 1936, 1937 and 1938 showed $200,674, and for the five years 1935 to 1939 inclusive, $195,290, and he concluded that such averages, when considered as a whole, indicate that $190,000 is the minimum necessary amount of working capital required for the company as a whole, which includes the $60,000 shown in Exhibit 68 as being required for the transmission system.

The annual expenses for the years mentioned, and the average for the two periods also mentioned, together with forty-five days' requirements or one-eighth of the total cash, material and supplies, are shown in detail on the statement accompanying Exhibit 192.

Mr. Lusk testified on direct examination as follows: (Vol. LXV, pp. 9265-9269.)

Direct Examination.

By Mr. Spencer:

Q. Mr. Lusk, you have testified heretofore in these proceedings?

A. Yes, sir.

Q. Have you at my request made a study and prepared an exhibit relating to working capital requirements of the Canadian River Gas Company as of December 31, 1938 and June 30, 1940?

A. I have.

Q. This is a copy of the exhibit I referred to?

A. Yes, sir, it is.

Mr. Spencer: Mr. Examiner, may I have Mr. Lusk's exhibit marked for identification?

The Trial Examiner: The document will be marked for identification as Exhibit No. 192.

(Exhibit 192, Witness Lusk, marked for identification.)

By Mr. Spencer:

Q. Mr. Lusk, have you prepared a written statement in connection with your Exhibit No. 192?

A. I have.

Q. Will you read that into the record, please?

A. "This exhibit sets forth the minimum working capital necessarily required by Canadian River Gas Company. The computations are based on one-eighth of the actual operating expenses for the years 1935, 1936, 1937, 1938 and 1939 as shown by the books of the company and in addition the cash balance and materials and supplies on hand at December 31 of each of the respective years. Averages for the three years (1936, 1937, 1938) and five years (1935 to 1939, inclusive) periods are $200,674 and $195,290, respectively. These averages when considered as a whole indicate that $190,000 is the minimum necessary amount of working capital required.

"Working capital of $60,000, shown on Exhibit No. 68 and No. 71 as being required in the operation of the transmission system owned by the company was a prorata allocation of the total working capital requirements on the basis of annual cash costs of operation and maintenance."

Q. Mr. Lusk, you make the statement that $190,000 is the minimum necessary amount of working capital required and I assume that you make that statement without reference to the contract dated January 3, 1928 between Canadian River Gas Company and Colorado Interstate Gas Company covering the purchase and sale of gas under the terms of which Colorado Interstate Gas Company furnishes Canadian River Gas Company with the necessary working capital from time to time?

A. The statement in this exhibit is made without reference to that contract.

Q. In other words, your study and your estimate eliminates any consideration of sources of working capital from that particular contract?

A. That is correct.

Q. You previously have submitted two exhibits with respect to working capital?

A. Mr. Rhodes has.

Q. You did not; Mr. Rhodes has?

A. I did not; he did.

Q. Did one of those exhibits include some item of working capital for Canadian River Gas Company?

A. Yes, $60,000 was set up as the working capital required for the transmission system of the Canadian River Gas Company.

Q. Does that mean that part of the so-called Denver line extending from Bivins station to Clayton Junction?

A. Beginning at the Bivins intake and extending to Clayton Junction, yes, sir.

Q. And you have incorporated that $60,000 in this study?

A. Yes, sir, the exhibit is an overall working capital requirement.

Q. You have one schedule or statement included here which shows in some detail the method by which you have arrived at your working capital estimate of $190,000. I wish you would make any explanation you desire with respect to that schedule or statement which you might think necessary at this time.

A. The only statement with reference to this schedule is that all of the items have been taken as per books with certain exclusions as noted in the footnote at the foot of the schedule. They exclude the management fees which have been excluded since 1936 and any computations of gas used in own operations; it excludes all of the rentals and the operating expenses on the leased facilities; it excludes any loss on the sale of autos and trucks and line abandonments; excludes all legal and other expense with reference to the present rate proceeding; it excludes under Item (G) management fees and taxes, that is, in gasoline operations.

Q. What taxes are you referring to?

A. The gasoline taxes on gasoline production.

Q. The so-called severence tax?

A. No, the severence taxes are included—I made a misstatement. It is for the taxes on property instead of gasoline tax. Gasoline production and severence taxes are paid monthly.

Q. Have you finished?

A. Yes, sir.

Mr. Spencer: That is all.

Mr. Lusk testified on cross-examination: (Vol. LXV, p. 9269.)

By Mr. Lange:

Q. Mr. Lusk, this exhibit represents an estimate, doesn't it? The final figure of $190,000 is an estimate that doesn't appear on the company's books?

A. No, sir, it does not. That is a judgment figure taking the $200,674 for the three-year period and $195,000 for the five-year period, and it is rounded down to $190,000.

Continuing his cross-examination, Mr. Lusk testified: (Vol. LXV, pp. 9276-9290.)

Going back to that Item 1 under production system, the years 1935 through 1939, those figures are, as you stated, per books, $52,347, and include all of the expenses?

A. That is correct, all of the expenses of the production system.

Q. All of the expenses of the production system? It also includes any expenses attributable to the Chicago line?

A. That is correct.

Q. Why have you set up all of those in this working capital requirement even including a portion of those attributable to the Chicago line when you say that it is your intent to exclude them otherwise?

A. Well, the reason that the production system expense is shown in here as a whole is that this is the entire operating expense of the production system as far as the Canadian River Gas Company's entire property is concerned.

Q. Well, does it include the operations attributable to any portion of the Chicago market?

A. Yes, if the Chicago market gas—and it does—is produced in the Canadian River field.

Q. Then it does include certain expenses attributable to the Chicago line?

A. That is what I said. I think I made it plain that it includes all of the expense of the property of the Canadian River Gas Company.

Mr. Spencer: When you say "the property of the Canadian River Gas Company," you mean the property that is owned by the company rather than leased?

The Witness: That is correct.

By Mr. Lange:

Q. And it also includes any expense attributable to Amarillo deliveries?

A. That is correct.

Q. Does that also apply to the other items through 9 under Operating Expenses?

A. Item 2, Gathering, would be eliminated as far as the Amarillo deliveries are concerned. They are concerned only with Item 1.

Q. Wouldn't there be some items under 2, Gathering System, that you have in here that wouldn't be directly attributable to Denver?

A. That is correct.

Q. And the same way with item 9, the Telephone Department?

A. It is a much disputed item as to how much the telephone department would be used for any other purpose than for Denver.

Q. Now, going back to that second group again, Other Expenses, beginning with item 11, which is Gas Royalties, are those for 1935 through 1939 as per books?

A. Yes, sir.

Q. There is no adjustment to any one of those items?

A. No, sir.

Q. That is the major single item in your operating expenses every year, isn't it?

A. That is right.

Q. Those are gas royalties paid by Canadian River Gas Company to lessors for their proportionate part of the gas taken out that month, that year?

A. That is correct. The gas royalties are paid to the lessors under the terms of the lease agreement.

Q. All right. You have these computations set up in this exhibit annually, haven't you?

A. Yes, sir.

Q. Those royalties are payable on what basis?

A. You mean the time?

Q. Yes.

A. They are usually paid about once a month.

Q. What day of the month are those payable?

A. I would have to look it up under the terms of the lease.

Q. Well, do they vary?

A. I believe they do, yes, sir.

Q. You are not sure at this time whether they are payable at one particular date in the month?

A. No; I am not quite sure. I would have to look up the lease, look up the working detail, and determine just when those payments are made.

Q. Do your working papers show when they are made every month by the company?

A. I doubt it.

Q. In your working papers the date of payment would be definitely reflected each month, wouldn't it?

A. I doubt that because these payments are taken right from the company's books.

Q. You say you don't have that in your working papers, Mr. Lusk?

A. No, sir.

Mr. Spencer: Just a minute. If Mr. Smith has that date I am willing to stipulate it, thus saving having to check it.

If it would suit your purpose, Mr. Lange, I would be willing to stipulate that the gas royalties generally are paid on the 20th day of the month following the month in which it is accrued.

Mr. Lange: The 20th day of the month following the month within which they accrue?

Mr. Spencer: Yes.

Mr. Lange: All right.

Q. Now, then, these figures that appear in your annual computation, 1935 through 1939, is that taking them as of the end of the year?

A. Yes, sir.

Q. Is that taking them as of the end of the year?

A. Yes, sir.

Q. At December 31st?

A. At December 31st.

Q. You haven't attempted to determine the monthly balance of that?

A. No, sir.

Q. And you haven't taken into account in this computation any lag with reference to the time that those are payable? In other words, the 20th day of the month following the month in which they accrued; you haven't taken that into account in this computation?

A. No, sir, there is nothing in this exhibit that indicates any lag. These are book figures taken from the books of the company at the end of each year.

Q. All right. If in the month—rather, at the end of the year, and then beginning the following January, you would compute one-eighth of that $345,867 as set up under 1939, for instance, as being necessary working capital?

A. That is right, one-eighth of that figure.

Q. Although the $345,867 isn't payable—strike that.

Although that $345,867 accrued during December 1939, didn't it?

Mr. Spencer: They accrue monthly.

Mr. Lange: Strike the question.

Q. State your accrual during December 1939 under Gas Royalties. Do you have that figure there?

A. The accrual for the month?

Q. Yes.

A. No, sir, these are annual figures.

Q. You gave no attention to that monthly accrual on gas royalties, did you, in fixing any kind of a lag?

A. I did not, no, sir.

Q. Don't you think if an item accrued during a month and wasn't payable until other revenues had come in during the interim that it would still be a necessary requirement of working capital?

A. I think so. Under this form of computation, regardless of the amount of revenue flowing in, it is always necessary for the company to be prepared.

Q. On what date does the company collect its major revenue each month, the Amarillo Oil Company from Colorado Interstate Gas Company? Do you have those monthly dates?

A. I am just trying to recollect. The Colorado Interstate—I don't think there is any specific date set up between the Colorado Interstate Gas Company and the Canadian River Gas Company.

Q. Isn't that fixed by contract?

A. It is fixed in the January 3rd contract but I don't know as its settlements are made actually on that particular date.

Q. It is payable on a particular date each month, isn't it, as per contract?

A. Yes, sir, I believe it is.

Q. You don't know what day of the month that is?

A. No, I would have to refresh my memory by looking at the contract.

Q. Isn't it the 25th of the month for Colorado Interstate Gas Company?

A. I believe it is, yes, sir.

Q. And on the 20th of the month for the Amarillo Oil Company?

Mr. Spencer: We will stipulate those are the correct dates.

Mr. Lange: In other words, you will stipulate it is the 25th of the following month for Colorado Interstate Gas Company and the 20th of the following month for Amarillo Oil Company and the 20th of the month for Clayton Gas, each of these succeeding months?

Mr. Spencer: Those dates are all correct, Mr. Lange.

By Mr. Lange:

Q. In other words, those are the dates on each succeeding month that Canadian River Gas Company gets its major revenues?

A. That is correct.

Q. Now, then, you have taken no account of any lag, as I understand it, in connection with the payment of these gas royalties on the 20th of the succeeding month in making this computation?

A. No, sir.

Q. Aside from your statement that you say in making this particular computation you did not take any such lag into consideration, why didn't you include all of your taxes, then, in this other expense item?

A. The taxes with reference to the property taxes have been eliminated from this computation. Only the taxes on the gas production which are—

Q. Why did you eliminate—

Mr. Spencer: I am not sure he had completed his answer.

Mr. Lange: Let him complete it.

The Witness: I want to delete the last statement I made and say that the gas severance taxes have been included and the taxes included on gas transportation which are paid monthly.

By Mr. Lange:

Q. You did include those as being necessary items to be taken care of in the company's working capital requirements, but why didn't you include your ad valorem tax items?

A. Ad valorem and property taxes are paid generally until the following year.

Q. But they are accruing items of expense, aren't they?

A. They are accruing items of expense on the books of the company in the form of taxes each month but there are no payments made against those tax accruals until the end of the year.

Q. Once accrued they have to be paid?

A. At some later date, that is correct.

Q. It is just like the gas royalties have to be paid at some later date after they accrue?

A. The gas royalties are paid the 20th of the month following the month in which they accrued, but the ad valorem taxes are paid in May and November or April and October.

Q. You made a distinction as to where a lag should take place and shouldn't?

A. No, I am not considering any lag at all in this computation. I am setting up the items that are actual expenses and that could be actual months, month after month after month during the entire period.

Q. What did you do with your income tax item? Why isn't it in there?

A. The income tax was left out for the simple reason income taxes are due and payable on March 15 and may be paid in quarterly instalments.

Q. They are paid the following year after they are accrued?

A. That is correct.

Q. And once they accrue they certainly have to be paid, don't they?

A. There is nothing so sure as taxes.

Q. Except you seem to be making some of them more sure than others in so far as the company's obligations are concerned. If you have a working capital obligation to meet, you want to provide for it in this computation, don't you?

A. As far as that type of tax is concerned, ad valorem and Federal income taxes, I don't believe this should become part of the working capital requirement because they are taxes that are paid at some later date.

Q. Both the property taxes and the income taxes are paid sometime during the year succeeding the year in which they accrued?

A. That is correct.

Q. The revenues the company has received monthly during that year the taxes accrued, they remain in the possession of the company during that year?

A. That is right.

Q. And you have singled out those two items of taxes apart from these other expense items that you have set up in this computation?

A. That is right, as not being attributable to any working capital requirement or any computation for working capital requirement.

Q. Where is the company going to have the funds to pay those two items if they are not in the same category as these you have provided for under your operating expense?

A. The company accrues all those funds each month from the revenues they receive for the sale of gas less whatever operating expenses have been incurred in all of the operating departments and all of the other expenses.

Under ordinary circumstances the company would have enough money at the end of the year, at the close of the year, to pay off all of its accrued taxes which it does.

Q. In other words, there is a lag in between that you say is automatically taken care of because of the accumulation of the funds in the company's hands?

A. I admit there is a lag, but as far as this computation is concerned, I haven't considered any lag between the date the revenue accrues until the date these expenses incur.

Q. As far as this computation is concerned, you haven't considered any lag, but a lag is definitely there and in any

computation where such a lag is considered it is good accounting practice to take care of it in a computation on working capital?

A. Well, I don't exactly agree with that statement of working capital. Working capital can be built up from operating expenses or it can be built up from the so-called lag between revenues accrued and expenses incurred. That is a difference of opinion.

Q. That may be true, but you have paid particular respect to a lag here with reference to those two items of taxes?

A. No, I wouldn't say—

Q. What would you call it?

A. I have eliminated it entirely.

Q. It is paying more attention to it than giving it the lip service of being a lag? You have eliminated it entirely?

A. Yes, sir, those particular types of taxes have been elmininated entirely.

Q. When you get down to your item 14, Gasoline Royalties, they are being paid quarterly, aren't they?

A. I believe they are.

Q. In other words, they accrue during January, February and then the total amount accrued is payable in March?

A. That is right. Gasoline royalties are paid quarterly.

Q. During January and February the company's revenues have come in regularly as provided for under its contract arrangement?

A. That is correct, yes, sir.

Q. And those gasoline royalties that are payable in March, the revenues against the proportionate part of the revenues that may be utilized for the payment of those have already been collected two months prior thereto?

A. I wouldn't say that because gasoline royalties which are payable on the gasoline extracted at the Bivins plant may not come in for sixty days.

Q. You still have additional time to pay them after they accrue, after the quarter, fifty days after the end of the quarter; so there is that much additional time during which revenues have come in, the proportionate part of which would be attributable to these royalties, or, rather, they would have to be paid on these royalties?

A. That is right.

Q. So you have given no consideration to the fact either in this computation?

A. That is right.

Q. Don't you think that if an item of that size is not payable until fifty days after its final quarterly accrual that you still need the proportionate part of working capital each month to take care of that in advance?

A. I could have eliminated that item entirely from this computation. The average of the computation is $12,000 a year and one-eighth of that is $1500. I could have eliminated that item.

Q. Wouldn't it have been reasonable to have eliminated it?

A. It may have been due to the long period of time in which the gasoline royalties are settled.

Exhibit 192 hereinabove referred to follows:

Exhibit No. 192

WRITTEN STATEMENT
OF
WILLIAM A. LUSK

This exhibit sets forth the minimum working capital necessarily required by Canadian River Gas Company. The computations are based on one-eighth of the actual operating expenses for the years 1935, 1936, 1937, 1938, and 1939 as shown by the books of the Company and in addition the cash balance and materials and supplies on hand at December 31 of each of the respective years. Averages for the three years (1936, 1937, 1938) and five years (1935 to 1939, inclusive) periods are $200,674 and $195,290 respectively. These averages when considered as a whole indicate that $190,000 is the minimum necessary amount of working capital required.

Working capital of $60,000, shown on Exhibit No. 68 and No. 7[illegible] as being required in the operation of the transmission system owned by the Company, was a prorata allocation of the total working capital requirements on the basis of annual cash costs of operation and maintenance.

Signed at Denver, Colorado this 20th day of January, 1941.

William A. Lusk

William A. Lusk

Exhibit No. 192

Canadian River Gas Company

Working Capital Requirements

Computed for December 31, 1938 and June 30, 1940

Item No.	Annual Expenses	1935	1936	1937	1938	1939	Average 3 Year 1936 - 1938	Average 5 Year 1935 - 1939
	Operating							
1	Production System	$ 52,347	$ 41,948	$ 54,148	$ 50,505 (D)	$ 44,630 (D)	$ 48,867	$ 48,716
2	Gathering System	13,620	23,776	22,990	23,766 (D)	26,477 (D)	23,511	22,126
3	Compressing Station	16,209	39,428	40,853	41,591	46,862 (D)	40,624	36,989
4	Transmission System	15,066	21,065	27,262	28,484 (D)	25,883 (D)	25,603	23,552
5	General Expenses	61,445 (A)	62,963 (A)	66,255	73,035 (D)	86,465 (E)(D)	67,418	70,032
6	Land Department	5,815	7,267	7,199	7,581	9,204 (D)	7,349	7,413
7	Meter Department	25,545	23,030	21,614	22,709 (D)	24,728 (D)	22,451	23,525
8	Amarillo Office	8,699	8,767	10,099	9,906	11,338	9,591	9,762
9	Telephone Department	4,331	6,529	10,877	9,016	8,342 (D)	8,807	7,819
10	Total Operating Expense - Gas (B)	$203,077	$234,773	$261,297	$266,593	$283,929	$254,221	$249,934
	Other Expense (C)							
11	Gas Royalties	223,768	304,829	327,929	305,919	345,867	312,892	301,662
12	Rentals on Unoperated Leases	47,224	21,314	21,180	25,079	5,770	22,524	24,113
13	Gasoline Operations (G)	54,044	59,119	65,834	67,155	61,447	64,036	61,520
14	Gasoline Royalties - Bivins and Fritch	6,166	9,455	17,286	12,039	17,132	12,927	12,416
15	Camp Expense	4,849	6,592	7,270	10,034	8,721	7,965	7,493
16	Hotel Expense	1,311	2,116	1,691	1,823	1,044	1,877	1,597
17	Dining Room	5,034	-	-	-	-	-	1,007
18	Shop	1,097	659	-35	163	726	262	522
19	Taxes - Gas Severance Only	21,220	27,815	34,461	31,207	34,102	31,161	29,761
20	Taxes - Gasoline Production and Transportation	150	170	195	154	138	173	161
21	Total Expenses	$567,940	$666,842	$737,108	$720,166	$758,876	$708,038	$690,186
	Working Capital							
22	45 Days Requirement (1/8 of total)	70,993	83,355	92,139	90,021	94,860	88,505	86,274
23	Cash	10,995	11,668	28,338	16,381	11,010	18,796	15,678
24	Materials and Supplies	95,479	77,920	103,106	99,093	91,092	93,373	93,338
25	Total Working Capital Required	$177,467	$172,943	$223,583	$205,495	$196,962	$200,674	$195,290
26	Used as Working Capital							$190,000 (F)

Notes (A) Excludes management fee.
(B) Gas used in own operations excluded on statements by systems.
(C) Rentals and operating expenses on leased facilities excluded.
(D) Excludes loss on sale of autos and trucks and line abandonments.
(E) Excludes legal and other expense re Denver Rate Case.
(F) Of which $60,000 was assigned to transmissions system in Exhibit No. 68 and 71 Reproduction Cost New and Less Depreciation.
(G) Excludes management fee and taxes.

The method employed and the amount of working capital by KENNETH L. SMITH, Witness for the Commission, in Exhibit 145 relating to Colorado Interstate have been abstracted and set forth in part in Title 22 supra. Employing the same formula or method for Canadian in Exhibit 171, Smith determined the working capital for Canadian to be the amount of $150,738.38. Said Exhibit 171 follows:

Docket G-124 Exhibit No. 171

CANADIAN RIVER GAS COMPANY

The Commission, under date of March 14, 1939, issued an order of investigation into and concerning all rates, charges, classifications, rules, regulations, practices or contracts of Canadian River Gas Company, Colorado Interstate Gas Company, and Colorado-Wyoming Gas Company. As a result thereof, and pursuant to instructions from the Commission, an examination of the accounts and records of Canadian River Gas Company has been made for the purpose of setting forth the pertinent facts concerning matters involved in this investigation by the Commission.

The accompanying schedules were prepared from data disclosed in the examination referred to above.

Kenneth L. Smith
Examiner of Accounts,
Witness

Approved:

Harold Tomlin
Examiner in Charge of
Regional Office

Chas D. Smith
Chief, Bureau of Accounts,
Finance and Rates

Exhibit No. 171

CANADIAN RIVER GAS COMPANY
WORKING CAPITAL REQUIREMENTS
BASED ON OPERATIONS DURING THE YEAR 1939

Line No.	Particulars (1)			Total Working Capital (2)	Allocation: Natural Gas Production (3)	Allocation: Natural Gas Transmission: Other Than Compressing (4)	Allocation: Natural Gas Transmission: Compressing (5)
1	Materials and supplies (average monthly balance during 1939, excluding gasoline stock)			$ 86,941.77	$ 79,177.87	$2,669.11	$5,094.79
	Operating revenue deductions, as adjusted by Examiner of Accounts:						
2	Operating expenses		$665,286.93				
	Less items for special treatment:						
3	Gas well royalties	$354,718.78					
4	Gasoline royalties (Bivins Plant) (Note 1)	4,282.15					
5	Gas used in operations (Note 2)	25,575.15					
6	Joint expenses - rental of leased facilities (Note 3)	230,507.53					
7	Residuals operating expenses (Fritch) (Note 4)	88,015.19	(703,098.80)				
8	Add back credit for residuals produced (Note 5)		399,271.47				
9	Balance		$361,459.60				
10	12½% of above, representing approximately 45 days' operations (Note 6)			45,182.45	38,328.27	2,019.66	4,834.52
	Items for special treatment:						
11	Gas well royalties		$354,718.78				
12	Average lag in receipt of revenues (Note 7)	38.85 days					
	Average lag in payments for gas well royalties (normally paid on the twentieth day						
13	of the following month)	35.00 days					
14	Difference	3.85 days					
15	3.85/365 of $354,718.78			3,741.55	3,741.55		
16	Depreciation (Note 8)			none			
17	Depletion (Note 8)			none			
18	Taxes (Note 9)			none			
19	Nonrecurring expenses		$ 222.60				
20	12½% of above, representing approximately 45 days' operations (Note 6)			27.83	27.83		
	Exploration and development costs, as adjusted by Examiner of Accounts:						
21	Delay rentals		$ 10,401.58				
22	Paid annually in advance, therefore a full year's allowance in working capital			10,401.58	10,401.58		

CANADIAN RIVER GAS COMPANY
WORKING CAPITAL REQUIREMENTS
BASED ON OPERATIONS DURING THE YEAR 1939

Line No.	Particulars (1)		Total Working Capital (2)	Allocation: Natural Gas Production (3)	Allocation: Natural Gas Transmission: Other Than Compressing (4)	Allocation: Natural Gas Transmission: Compressing (5)
23	Nonproductive well drilling	$29,293.73				
	12½% of above, representing approximately					
24	45 days' operations (Note 6)		$ 3,661.72	$ 3,661.72		
25	Abandoned leases (Note 8)		None			
	Other items:					
26	Line pack (Note 10)		781.48		$ 781.48	
27	Minimum bank balances (Note 11)		None			
28	Total Working Capital Requirements		$150,738.38	$135,338.82	$5,470.25	$9,929.31

Notes:

(1) No allowance is made herein for gasoline royalties payable for the reason that the average lag in their payment greatly exceeds the average lag in the receipt of revenue. Gasoline royalties are payable quarterly, fifty days after the quarter's end. Accordingly, on the assumption that royalties accrue in equal daily amounts during the quarter, thus making the equated date of their accrual the forty-fifth day of the quarter, payments are due, on the average, ninety-five days after the royalties accrue, a lag much greater than the lag in the receipt of revenues which is only 38.85 days (Cf. Note No. 7).

(2) No allowance is made herein for the charges to operating expenses representing gas used in operations for the reason that the actual expenses of producing and transmitting this gas are included in various other operating expense accounts. The amount deducted herein, $25,575.15, represents the amount charged to operating expenses and credited to revenues (Schedule B-17-1 of exhibit relating to income account of Canadian River Gas Company shows details thereof).

(3) No allowance is made herein for rental of leased facilities because of the lag in payment therefor. The Respondent's payments for these expenses are due on the last day of the following month, which creates a lag of forty-five days, as compared with an average lag of 38.85 days in the receipt of revenues (see Note 7, below).

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CANADIAN RIVER GAS COMPANY
WORKING CAPITAL REQUIREMENTS
BASED ON OPERATIONS DURING THE YEAR 1939

Notes: (cont'd.)

(4) The charges to operating expenses representing the Respondent's share of the joint operating expenses of the gasoline extraction plant at Fritch, Texas, are deducted from the operating expense base, for working capital purposes, for the reason that these expenses are actually incurred by Texoma Natural Gas Company and are settled between the latter company and the Respondent quarterly. The Respondent's share of the proceeds from the residuals produced at Fritch, Texas are also settled quarterly. The entire working capital required for these operations is presumably furnished by Texoma Natural Gas Company.

(5) The total credit to operating expenses for residuals produced is added back to the operating expense base, for working capital purposes, in order that the gross operating expenses may be considered in this computation of working capital requirements. The credit for residuals produced at the Bivins gasoline extraction plant is included in revenues for working capital purposes in computing the average lag in receipt thereof (see note 7, below). The credit for residuals produced at Fritch, Texas is omitted entirely from the working capital computations since these revenues are actually received by Texoma Natural Gas Company and settled quarterly (see note 4, above). The credit for residuals produced by Cannon Gasoline Company is omitted from the working capital computations since this amount has not been received by the Respondent.

(6) The proposed allowance of approximately forty-five days' expenses for operations (as adjusted) and nonproductive well drilling is made discretionally. In the Examiner's opinion, it represents a liberal allowance to cover expenses (as adjusted herein) which are required to be paid in cash during the period from initial rendition of service to average date of receipt of revenues in cash.

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Exhibit No. 171

CANADIAN RIVER GAS COMPANY
WORKING CAPITAL REQUIREMENTS
BASED ON OPERATIONS DURING THE YEAR 1939

Notes: (cont'd.)

(7) The average lag in receipt of revenues in cash is computed as follows:

CALCULATION OF WEIGHTED AVERAGE LAG, IN DAYS, BETWEEN THE DATE OF DELIVERY OF GAS TO CUSTOMERS AND THE DATE WHEN PAYMENT FOR THAT GAS IS DUE BASED ON 1939 REVENUES

Customer	Last Day of Billing Period	Date Due in Following Month	Lag in Number of Days Between the Time of Delivery of Gas to Customers, as Equated, and Date when Payment for that Gas is Due	Amount of Revenue	Dollar Days
Amarillo Oil Company	30th	20th	35	$ 205,183.50	7,181,422
Colorado Interstate Gas Company	30th	25th	40	2,126,329.91	85,053,196
Clayton Gas Company	30th	20th	35	24,705.06	864,677
Sinclair Prairie Oil & Gas Company (Gasoline sales)	Date of shipment	1%-10 days net 30	30	177,681.35	5,330,741
Total				$2,533,909.82	98,430,036
Weighted average lag, in days			38.85		

(8) No allowance is made herein for depreciation, depletion or abandoned leases, since these expenses do not necessitate the disbursement of cash or the use of working capital.

(9) No allowance is made herein for taxes in working capital, as revenues are realized in cash, for the greater part, considerably in advance of the payments of taxes, as shown in the following tabulation relating to payment dates of taxes included in 1939 expenses, as adjusted:

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CANADIAN RIVER GAS COMPANY
WORKING CAPITAL REQUIREMENTS
BASED ON OPERATIONS DURING THE YEAR 1939

Notes: (cont'd)

Date Paid		Amount
January	1939	$ 37.90*
February		3,712.69**
March		3,685.19
April		5,229.56
May		3,301.46
June		3,242.95
July		3,817.30
August		4,484.66
September		3,041.39
October		49,109.05
November		10,608.87
December		3,825.67
Subsequent year (1940)		81,044.34
Total		$175,141.03

*This amount relates to Texas Gross Receipts Tax for last quarter of 1938 which Examiner did not reclassify because the amount involved was not significant.

**The larger part of this amount relates to Texas Gross Receipts Tax which is paid on the approximate date on which revenues to cover are received. The remainder of this amount is paid after receipt of revenues.

(10) An allowance in working capital for line pack is computed as follows:

Average line pack during year 1939, according to information prepared by the Bureau of Engineering relating to the transmission line between Bivins compressing station and Clayton Junction, amounts to 21,204 M.C.F.

Price per M.C.F. Due to the comparatively small amount involved, no attempt has been made by the Examiner to determine the actual cost of the gas used in line pack. The arbitrary rate per M.C.F. used herein is

Exhibit No. 171

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CANADIAN RIVER GAS COMPANY
WORKING CAPITAL REQUIREMENTS
BASED ON OPERATIONS DURING THE YEAR 1939

Notes: (cont'd)

equivalent to the rate used by the Respondent in computing the value of the gas used for testing and packing the Texline lateral, and for the majority of the gas used in operation	4 cents
Amount	$848.16
Less net amount capitalized by the Respondent, representing gas used in testing and packing the Texline lateral. 1,667 M.C.F. at 4 cents per M.C.F.	66.68
Net amount	$781.48

(11) No allowance is proposed for minimum bank balances for the following reasons:

(a) Substantial average balance is provided by reason of the lag in payment of a considerable portion of taxes after the average date of receipt of revenues. (See notes 7 and 9, above)

(b) A small duplication in the proposed allowances for stocks of materials and supplies and operating expenses exists, to the extent of 12½% of the charges to operating expenses from the material and supplies account.

KENNETH L. SMITH testified as follows: (Vol. XLVIII, pp. 6659-6668.)

A. "This study was made for the purpose of determining the working capital requirements of Canadian River Gas Company, and is based upon operating figures for the year 1939 because they are believed to be indicative of present conditions. It consists of six pages of computations and notes in which are developed a working capital requirement, allocable to the company's production and transmission operations, amounting to $150,738.38. The computations with the notes that accompany them are self-explanatory."

Q. Mr. Smith, in the preparation of this exhibit 171, I take it that you had available for your work whatever books and records of the Canadian River Gas Company were found necessary in order to enable you to arrive at your computations?

A. Yes, sir.

Q. And it is your belief and your opinion that the working capital as setup by you in this exhibit is adequate for the company's operations?

A. Based on operations for 1939, it is.

Q. And I notice that on the title page of this exhibit it also bears the approval of Mr. Charles W. Smith, Chief, Bureau of Accounts, finance and rates of the Federal Power Commission and Mr. Harold Tomlin, Examiner in charge of regional office.

A. That is correct.

Mr. Lange: I believe that is all for the present.

Cross Examination.

By Mr. Spencer:

Q. Mr. Smith, did you say in your written statement that your determination of working capital requirements of Canadian River Gas Company is based upon operating figures for the year 1939? That is correct, is it not?

A. Yes, sir.

Q. Now, in speaking of operating figures for the years 1939, do you have in mind the company's operating figures per books, or do you have in mind the book figures

as adjusted and reclassified by Mr. McKinstry in [illegible] exhibit which we had this morning, Exhibit No. 168?

A. I have employed the figures as adjusted by Mr. McKinstry in Exhibit 168.

Q. In other words, your reference to figures—to operating figures for the year 1939 has application to the figures as adjusted and reclassified by Mr. McKinstry?

A. Yes, sir.

Q. Now, will you tell me what your definition is of working capital for the purposes of this study?

A. Well, working capital is the capital required by utility—by a utility company to carry on its operations over and above its plant account. The plant account has in the past sometimes been referred to as the fixed capital, although we don't employ that particular term in our system of accounts. We call it plant.

Q. Is there any provision in the code that specifies how working capital shall be determined? I assume there is not.

A. I believe there is not.

Q. Did you have any instructions from the Commission on that subject to guide you?

A. As to a specific set of written instructions, I didn't have. However, I have employed a formula which was approved by Mr. Charles W. Smith, Chief of the Bureau of Accounts, Finance and Rates, and also by Mr. J. P. Jackson, who was formerly assistant chief accountant during a part of this investigation. I have discussed my method quite in detail with them and while I don't have any written instructions, I might say that those discussions were comparable at least to verbal or oral instructions and approval.

Q. Am I correct in assuming, then, that you developed the formula upon which this computation is made in the first instance?

A. Not entirely. I think I gained a great many of my ideas in this study from my first discussion with Mr. Charles W. Smith pertaining to this assignment when he was in Denver in July 1939 and since then I have, of course, given it a great deal of study myself starting from that point with what his ideas were in connection with this particular investigation.

Q. Well, let's state it this way, then: You do have a

formula, then, which has been developed from your own ideas plus the ideas that you got from Mr. Charles W. Smith on the subject, is that correct?

A. Yes, I believe that is correct.

Q. Now, is your formula in your working papers, or in what shape do you have your formula, if I should ask you about that?

A. Well, the formula sort of evolves in this exhibit. I don't know that I have—

Q. Well, if I should ask you to state your formula for the record or if I should ask you if you have it expressed in some manner that you can show to me in paper, what about the latter?

A. Well, I don't have it prepared in written statement form as to a formula.

Mr. Spencer: Now, without objection of counsel I would make this suggestion. I do not intend to conclude my cross examination on this subject today, in any event. But I would suggest that the witness prepare a short statement explaining the formula that he has developed and used in this study which could be read into the record on cross examination, unless he prefers to do it extemporaneously.

Mr. Lange: Whichever way the witness believes would be most explicit or the one that gives the record the best information, whichever way the witness can do it best.

Mr. Spencer: If I were to do it I would prefer to think about it and then prepare a statement and read it into the record that way.

Mr. Lange: By which method would you prefer to present it, Mr. Smith?

The Witness: What I would like to do is to go down the line here on each item and explain the principles involved in each one and I feel as to preparing a written statement of a thing like this would require a great deal of time. A written statement if it is going to be a universal formula, has to be prepared very carefully. I have dealt with a specific situation here.

If I have dealt with the situations as they exist in Canadian River and have dealt with them properly, it seems to

me that that is all that is required of this exhibit. I don't need to give a treatise on working capital. If I started writing a statement I might be writing for a week, I don't know.

Mr. Spencer: No, I don't want you to do that. Suppose we follow your suggestion and when I get prepared to cross examine you on the detail in your statement here we can see what explanation develops as to your theories and formula. If we need something else we can consider it at that time. That is satisfactory to me.

The Trial Examiner: I take it, Mr. Smith, that your exhibit contains those various factors that go to make up your formula?

The Witness: Yes, it is all set out clearly. I think the exhibit really speaks for itself in that respect because I point out in the exhibit items that have been considered even though there was no working capital developed or considered applicable to the particular items such as depreciation. Then in the footnote I explain my reasons for excluding depreciation.

Mr. Spencer: Now, let's see, we'll leave that, then, for the time being, Mr. Smith. At some point in this record I believe you stated your qualifications, but I have forgotten. Let me ask you this:

Q. Have you ever had any actual experience in the operating end of a business of the nature carried on by Canadian River Gas Company?

A. Not in a strictly operating sense.

Q. Do you feel for the purposes of making a study of this character that experience in the operating end is essential or desirable, let us say?

A. I doubt if it is as this is an analytical approach. I think an analyst who is careful in his work and takes the results of the operations of a company as shown by its records and makes the kind of study I have made, he would not need to be an operator to do that. If he were an operator, I think he would have to be something of an analyst in addition to being an operator.

Q. Well, I mean after all, to determine the amount of money—cash required by a corporation or a firm or per-

son individually is largely a matter of fact from time to time, a very practical matter, isn't it, quite aside from any analytical study of it? It still has very practical aspects, don't you think?

A. Yes, of course I am assuming that analysts can be practical, of course.

Q. Well, I am not going to assume that an analyst could not be. Does this study here—and I may be ahead of myself—take into consideration the amount of money that Canadian River has required during the year 1939 from time to time for the purposes of carrying on its operations?

A. I feel that it does.

Q. Or is it based on what it should have rather than what it did have?

A. No, I believe that it is based on the actual experience of that company.

Q. During this period?

A. Yes, sir.

Q. Do you include—and again I may be ahead of myself—anything for maintaining carrying balances in the banks in order not to get thrown out of the bank?

A. Yes, I think that is covered in my statement.

Q. Point that out, please.

A. Sheet 4, Note 9. I believe I show there that the lag in the payment of taxes is sufficient to provide the company with a considerable minimum bank balance.

Q. You don't say so in that note, do you, Mr. Smith?

A. Only more or less indirectly. I don't add anything for minimmumm bank balances in my tabulation on Page 1, and the reason I don't add it is because it is my position—my analysis of the situation, that a minimum bank balance is provided through the lag of payment of taxes which were accrued in 1939 and which are not paid until the latter part of 1939 and in 1940. You take the table on Sheet 5 of 6 and you will see that the taxes paid in 1940 which were accrued and charged to expense in 1939 amount to $81,000, and a little over.

Now, if we could assume that the accrual of that tax was in equal monthly instalments over the year 1939, then the average cash balance provided through that lag in payment during 1939 alone would be approximately $40,000, and

those taxes, of course, aren't all paid on January 1st, 1940. The income tax included in that is paid in four quarterly instalments—March, June, September and December. That is still an additional lag, so computing it back to a 12-months basis you can see that the minimum bank balance from that source is going to be somewhere between 40,000 and 80,000 dollars.

Q. Well, your answer is that you haven't taken care of minimum bank balances specifically but the lags which occur here with respect to tax payment and perhaps otherwise do provide sufficient minimum balances, is that your answer?

A. Yes, principally the lag in the payment of taxes.

Mr. Spencer: I doubt if I will have a great deal of additional cross examination on this particular exhibit, Mr. Examiner, but what I have I would like to defer until tomorrow, until we can check this statement with our own figures.

The Trial Examiner: You wish to take it up the first thing in the morning, Mr. Spencer?

Mr. Spencer: I would prefer to have Mr. Dougherty go ahead in the morning and I can finish after that. Perhaps we can, however. Can we decide that in the morning? You don't like the break in the record?

The Trial Examiner: Yes.

Mr. Spencer: I will do it in the morning, Mr. Examiner.

Mr. Kenneth L. Smith further testified: (Vol. XLIX, pp. 6671-6692.)

Cross Examination (Continued.)

By Mr. Spencer:

Q. Mr. Smith, before we recessed last evening I believe I asked you if you would give me a general statement which would explain the method, or the reason you have employed in arriving at your working capital for Canadian River Gas Company in Exhibit No. 171 that you have prepared. Can you do that this morning, Mr. Smith?

A. In a somewhat general way?

Q. Yes. Suppose you go ahead and explain it in your

own way generally and any specific questions that develop out of that, why, then I can follow up.

A. Why, I think that as a general overall summary it might be said that the allowance herein computed consists of ~~possibly two~~ major parts; ~~the first, the material~~ and supplies—the stock of material and supplies that the company needs to have to conduct its operations based upon its experience for the year 1939.

Q. That is shown on—

A. That is shown on Line 1—

Q. Of sheet one.

A. Of sheet one.

Q. Yes.

A. Then the other items which are developed in Lines 2 to 27, inclusive on Sheets 1 and 2 might be described as the cash requirements to carry on operations or to provide for expenses of operation.

Q. Cash as distinguished between physical properties represented in your material and supplies?

A. Yes. That is, a company couldn't start business without providing in advance for funds to meet its operating expenses before it collects its revenue. There must be some sort of cash available in some amount to meet those expenses which have to be paid before the revenue starts coming in.

Of course, the situation we are dealing within 1939 is not on the assumption that the company is starting business but treating it as a going concern, going along month to month and dealing with the operating and going conditions as they were in 1939.

Q. Now, suppose you tell me right at this point the general method you utilized in determining the amount that should be set up here in Line 1, Sheet 1, which represents materials and supplies. I assume that has reference to warehouse stock.

A. Yes, the warehouse account for 1939, which was examined and the monthly balances during 1939 were taken off and the average was computed. That is just a straight arithmetical average of the ending monthly balances during 1939 based upon what the company actually had in its warehouse account.

Q. In other words, that is as per company books?

A. Yes, sir.

Q. And there is no adjustments in that figure as I understand it?

A. Not in the warehouse material and supplies that are held for use.

Q. All right, now, can you tell us generally the method that you have utilized in determining the other part, to-wit, cash?

A. Well, the cash requirements for meeting operating expenses is in general based upon the time relationship or the time lag, we might say, between the time when expenses are incurred and revenues are received, that being considered the cash that is needed by the company to finance its operations, the amount of money which it will tie up in expenses from the time those expenses are incurred until the revenues are received from the customers of Canadian River Gas Company. That is the general theory. The application, of course, is shown in the exhibit somewhat in detail.

Q. All right, now, suppose you put in there generally your method of computing what you term "time lag." I note that it varies in different items.

A. Well, I suppose a good starting point on that possibly is to get a picture of the computation of the lag in receipt of revenues which is shown on Sheet 4 of 6 in Note 7.

Q. Go right ahead.

A. There is a table included in that Note 7 which is headed as the "calculation of weighted average lag, in days, between the date of delivery of gas to customers and the date when payment for that gas is due, based on 1939 revenues."

Q. Also as required by contract?

A. I believe that the billing period and the date on which the payments are due in the month following the billing period are stipulated in the contracts.

Q. And you have used both dates?

A. Yes, those have been employed.

Q. All right, now, go right ahead with your explanation.

A. Well, that table develops a weighted average lag in days of 38.85 days. In other words, that is the lag or the number of days that elapse between the average date of

delivering gas to customers and the date when the payment for that gas is due.

I have also, of course, put the gasoline sales in there and given that a lag of thirty days even though the 10-day discount period is, as I understand it, ordinarily availed of.

Q. You don't use that?

A. No, I give it a 30-day lag instead of a 10-day lag.

Q. You might add right there the manner in which you have weighted your average. What are the factors employed in weighting?

A. Well, the three columns to the right of that tabulation are employed. Take, for instance, the revenue from Amarillo Oil Company, the first line of the tabulation in Note 7. The lag is shown as 35 days. The amount of revenue is shown as $205,183.50.

Q. Yes.

A. Then in the last column the dollar days are computed which is simply multiplying the amount of revenue by the lag—

Q. I see.

A. Of thirty days, and then taking the totals at the end of the tabulation of $2,533,909.82 as related to total dollar days of 98,430,036 gives a weighted average lag in days of 38.85. That's straight division.

Q. In other words, you have weighted it in dollars of revenue, is that correct?

A. Yes, sir.

Q. Is that sufficient, do you think, with respect to a determination of lags or as far as revenues are concerned?

A. Yes, that is, I believe, the whole story on the determination of the number of days lag between the time gas is delivered to customers and the date when that payment is due.

Q. Now, will you go back and pick up the determination of a lag with respect to expenses?

A. Well, that takes us back to Sheet 1, Line 2. I have employed there the basic figure to begin with of operating expenses, $665,286.93 which appears in Mr. McKinstry's Exhibit No. 168 as his adjusted operating expenses for the year 1939.

Now, it was not possible to deal with that figure as such

for several reasons, or putting it this way, there were several items, both debit and credit, reflected in his adjusted operating expenses which had to be set aside for separate or special treatment and those are detailed on Sheet 1, Lines 3 to 8, inclusive, and the balance of operating expenses with which I deal are stated on Line 9 of that same sheet. Line 3 takes out the expense of gas well royalties for separate treatment and those are dealt with further on down in the statement; so we can disregard those for the moment.

Q. Yes.

A. The same is true with respect to gasoline royalties shown on Line 4 and gas used in operations is also eliminated from expenses. It is explained in a footnote, Footnote 2—

Q. There is no cash outlay involved?

A. There is no cash outlay involved in addition to the other expenses.

Q. Yes.

A. Then the joint expenses with Texoma Natural Gas Company for the rental of leased facilities appearing on Line 6 of that Sheet 1 is covered by Footnote 3, Sheet 2.

Q. Yes. You make no allowance there, because according to your determinations we received payments or received revenues for those operations prior to the time we had to pay the expenses?

A. Yes.

Q. Based on your average lag?

A. You collect your revenue from the Colorado Interstate Gas Company for that—you see, those expenses are included in the billing of Canadian River Gas Company to Colorado Interstate Gas Company for gas sold over the Chicago line. Your money is received from Colorado Interstate Gas Company before any outlay is required by Canadian River Gas Company to Texoma. That is the significance of Footnote 3, I believe.

Q. I think you can go down to Line 10, Mr. Smith, and explain how you get the figures shown on that line.

A. Line No. 10 is simply $12\frac{1}{2}$ per cent of the so-called balance that I come to on Line 9.

Q. Now, I see that is based upon $12\frac{1}{2}$ per cent of the above, representing approximately 45 days operations. Where do you get the 45 days from?

A. I have a note stating that in Note 6, Sheet 3. I think perhaps that expresses the situation in the note as well as any other way it could be expressed.

Q. I think so. It is a judgment figure?

A. Yes, it is used but it is not a judgment figure you pick out of the air; it is related in a sense to the 38.85 days lag in the receipt of revenues. In other words, if the revenues—if the lag in receipt of revenues is approximately 39 days, then it follows that 45 days expenses of operations should be a reasonable, if not a liberal, allowance.

Q. I see. Line 15, is there any explanation you would like to give regarding it?.

A. Line 15 is where I have come to the result as to what is required as a component of working capital for gas well royalties. Gas well royalties is one of the items set aside on Line 3 above for separate treatment.

Now, there is a separate or special treatment there.

Q. I think it is clear enough what you have done.

By the way, on Sheet 1 you have utilized certain headings there for the purpose of allocating total working capital as shown in Column 2. Column 3 is headed "Natural Gas Production" and then Columns 4 and 5 are headed "Natural Gas Transmission", Column 4 being "Natural Gas Transmission Other than Compressing," and Column 5 being "Compressing." These allocations are your own, I assume?

A. Yes.

Q. I mean the figures shown under these headings.

A. Yes, I made the computation to arrive at those allocations. The allocations as such are not on the company's books, if that is what you mean.

Q. What is the basis of your allocation generally?

A. I employed slightly a different method for material and supplies on Line 1 than I did for expense on Line 10. I will explain them separately if you want the general principle involved.

Q. I want just the general principle involved.

A. I wasn't able, from an examination of the warehouse account, the balances, to assign the components to functions, so I employed this method. I took the issues from

warehouse stock for a 12-months period and prorated the average monthly balance used here on that same ratio. In other words, it was based on the way the stock was used. When I came out to approximately 90 per cent for natural gas production I figured that looked good enough; based upon what I knew about the company, it looked reasonable.

Then as to Line 10, it was possible to put those figures into the same pocket, so to speak, that Mr. McKinstry had on his income statement details for 1939 in Exhibit No. 168.

Q. Or a proportionate basis, you mean?

A. No, he has all of his operating expenses broken down into functional groups.

Q. Yes.

A. So the items which follow through to show up in Line 10, which is simply one-eighth of his adjusted operating expenses with certain items eliminated or added back for special treatment, these figures I arrived at on Line 10 are identifiable with the same functional groups he employed in his Exhibit 168. It seemed to me that was the only—

Q. Let's see.

A. Wait a minute. Of course, I have had to make allocations of his general expenses there and I did that on a dollar basis.

Q. On a dollar basis?

A. Yes, sir.

Q. I see. You have the heading "Natural Gas Production;" I assume that also includes gathering?

A. Yes. He combined the company's production and gathering and I believe its metering department expenses, to come to the natural gas production, and of course he also brought the residual operations and revenues into his natural gas production expense and he did that in conformity with the Commission's Uniform System of Accounts.

Q. All right, go down to line 22, Sheet 1.

A. Of course I put that $10,401.58 in for an allowance for delay rentals. That was the delay rental expense shown on Mr. McKinstry's Exhibit No. 168 for the year 1939, and an investigation disclosed that these rentals were paid annually in advance. Therefore, in order to be certain that a

full allowance was made in working capital. I simply allowed the whole year's delay rental, so-called delay rental, according to his income account.

Q. Based entirely on the experience of the company in the year 1939?

A. Well, this is the 1939 figure, and I think possibly that I gave the company more than I should have on that one, but I am not suggesting that it be changed. I allowed a whole year in advance and I think that their average investment in prepaid delay rentals would be only one-half of that. However, I am not suggesting by any means that it be changed.

Q. I wouldn't suggest it either, Mr. Smith, so we will pass on to the next item.

I think if you go to Line 26, Sheet 2, which is described line pack, the amount involved is not very large. I see you have a note which is applicable to it. Is there any additional explanation you might think appropriate for the record?

A. I don't think of anything additional that, I—

Q. This line pack represents gas in the line that must be there all the time?

A. That apparently is the theory as to how the practice grew up. I was never sold on it, putting in a line pack allowance for a production company, but Mr Jackson suggested that I put it in because there has apparently been a decision saying that the line pack should go in as an allowance for working capital, too, so it has been put in. It looks to me as though a line pack for a production company might cause a lot of duplication where you have made an allowance for the expense of the production company.

Q. Are you arguing against your exhibit?

A. No, sir. As I said before, those things are in there and I want them to stay in there because I wanted this exhibit to be put up in such a way that if there is any doubt about any item I would rather give the company the benefit of the doubt than to try to take it away from them.

Q. As to working capital?

A. Of course, we are discussing a working capital exhibit. I think working capital exhibits are the only exhibits that I have put in for these two companies.

Q. I want to see how generous and liberal you are when you come to this depreciation and depletion schedule of yours. Let me ask you one or two questions on this particular item.

For the purpose of determining the value of the gas represented by line pack you have used a price of four cents per Mcf.?

A. That is right.

Q. Which you designate as an arbitrary rate?

A. That is right.

Q. And which you have utilized because the company utilized it in computing the value of gas used for testing and packing the Texline lateral and for the majority of the gas used in the operation; that is your recommendation on that?

A. Yes, that was about the only tangible figure I could use. It seemed to me that it might be reasonable because even assuming that the value of the gas might be slightly in excess of four cents, there would be factors entering into the cost of the gas, such as depreciation and depletion, for example, which don't require any working capital or cash outlay on the part of the company.

Q. Well, just to clarify that a little, when the company uses the price of four cents per Mcf. for gas used in its operations, that is a well head price, is it not?

A. That is what I understand to be the so-called field price. Now, just where it is supposed to measure value of the gas, at what point; of course I don't know. I know that the—

Q. And this gas used in the line pack figures has been gathered, compressed, and transported to varying distances?

A. That is a fact.

Q. But if you went into that you said you would have had depreciation and other factors to consider?

A. Yes, sir.

Q. You have used the four cents per Mcf.?

A. I used the same price that the company used in their capitalization of the pack on the Texline lateral. I think that influenced my decision there quite a lot.

Q. You are not attempting to say or purporting to say that that represents the value of the gas in the line pack?

A. Well, I am saying that it represents a reasonable allowance for these purposes. I am not implying that that is the price of gas at the Clayton Junction station, or anything like that.

Q. And the amount involved is not large in any event?

A. I think we could figure on this for a month and we then would only be a few hundred dollars at difference.

Q. Had you used the company's book figures for the year 1939 instead of the book figures as adjusted in Mr. McKinstry's Exhibit 168, what would have been your figure for working capital, approximately?

A. I don't believe I could answer that without—

Q. You didn't compute it in that manner?

A. I didn't compute it in that manner because I felt as though I was justified in using the adjusted figure.

Q. All right. I will not pursue that any further except to ask you this: From your knowledge of the figures, you would say that your working capital would have been greater had you used company book figures for the year 1939 without adjustments?

A. I don't believe it would have been much greater.

Q. You don't know, though, exactly, however?

A. I can't make a quick check on it by referring to Mr. McKinstry's exhibit very well because he has reclassified so many items—

Q. I will not ask you to take time to do that.

By utilizing this method of yours for determining working capital, we arrive ultimately, do we not, to an average of cash requirements for the year rather than the actual cash that may be involved from time to time; that is to say, you find working capital here should be \$150,738.38. I assume the company may need more than that at certain times and less than that at certain times, is that correct?

A. Some unusual circumstances might create a peak condition which might modify my computation slightly; however, I want to point out that the facts developed in my Footnote 9 creates a considerable cushion there, it seems to me, looking at the situation as a whole over a period of a year, because—

Q. I think you explained that yesterday, didn't you?

A. Yes, sir. There is quite a cushion in that. When

you collect revenues for taxes, part of which are to be used for the payment of taxes, and you don't pay some of those taxes for a year or more later, you definitely have a cushion there that will take up quite a bit of the shock if you do run into that peak condition.

Q. But your computations are based on averages, are they not?

A. The computations that are arrived at on Line 28, Sheet 2, are based on the average condition for the year 1939.

Q. That is correct. It is also possible that the company at various times might need an excess of the average—I mean, need cash in excess of the average or materials and supplies, for that matter?

A. I doubt if they should on materials and supplies, because I might add that I carried this same sort of computation on for 1937 and 1938 and came to a result which was approximately the same as this result—I believe it was a little bit less in those years.

Q. You did have times did you not, when you had materials and supplies on hand during these years in excess of $86,941.77 shown in Column 2, Sheet 1? In other words, this is not a maximum figure, is it?

A. It probably isn't. I can think of situations where purchases of materials and supplies were made to carry on some construction project which may have put a higher figure in that account, but I believe as far as operating materials and supplies is concerned, the average doesn't fluctuate a great deal; that is, the peak condition doesn't fluctuate very much from the average.

Q. These figures are not the maximum figures that you found in looking into the experience of the company, that is true, is it not?

A. No, and if they were an average, of course, they wouldn't be a maximum.

Q. That is right. I think that follows.

A. I think under my system here where the materials and supplies account, if it fell below the average, that would mean just that much more money in the bank for the time being.

Q. I can't see any particular benefit the company would derive by having the balance in the bank.

Let's go to this: Are you familiar with the contract dated January 3, 1928, between Canadian River Gas Company and Colorado Interstate Gas Company covering purchase and sale of gas?

A. I am in a general way familiar with it.

Q. Is it true that contract makes provisions for what we might term generally the working capital requirements of Canadian River Gas Company?

A. I assume you have reference to provisions in general that Colorado Interstate Gas Company pays the expenses of Canadian River Gas Company and handles a sum there for them through their current account?

Q. Yes, sir. That is right. When Canadian River Gas Company needs money for any purpose it gets it from the Colorado Interstate Gas Company—

A. That is my understanding of the situation.

Q. That is all provided for in the contract I mentioned to you a few minutes ago, isn't it?

A. It is my understanding of the operation of the company and the contract.

Q. Assuming that contract, as between the parties, is valid and binding—

Mr. Lange: Of course—

Mr. Spencer: Just a minute. I haven't finished the question.

Q. —and then there is no necessity for any working capital provisions such as you have supplied here in Exhibit No. 171.

A. I haven't given that any consideration.

Q. You wouldn't know about that?

A. I don't believe I am qualified to say.

Q. What is the purpose of this Exhibit 171 entitled "Working Capital" in so far as Canadian River Gas Company is concerned?

A. To show the Examiner and the Commission what the working capital requirements of Canadian River Gas Company are.

Q. Exactly. Now, you really couldn't make a determination of that without considering what provision Canadian River Gas Company had made for itself with respect to working capital, could you?

A. They are the requirements; these aren't the provisions that Canadian River or anybody is making. These are the requirements.

Q. Would you say today that with respect to Canadian River Gas Company and the situation in which you find it that it needs $150,738.38 as working capital?

A. I still think that is a legal question.

Q. Well, let me help you out some. This study in Exhibit 171 of yours is made for the purpose of a rate proceeding, is that correct, without respect to the contracts that may exist between Canadian River Gas Company and Colorado Interstate Gas Company; isn't that simple?

A. I think that follows; that is, if we assume that the contracts were valid, I don't know whether there would be any basis for a rate proceeding or not. I don't know.

Q. I think that is a frank analogy. Who asked you to make this particular exhibit, Mr. Smith?

A. I think Mr. J. P. Jackson gave me that assignment before he resigned from the Commission's staff. He was assistant chief accountant.

Mr. Spencer: That is all.

Redirect Examination.

By Mr. Lange:

Q. Mr. Smith, you just stated on cross examination, or, rather, made some reference to the suggestion or instructions of Mr. J. P. Jackson who was formerly on the Commission's staff, with reference to a portion of this exhibit?

A. Yes, sir.

Q. I will ask you now whether aside from that suggestion of Mr. Jackson these are your views and opinions as an accountant as expressed in this working capital exhibit?

A. Oh, yes. Mr. Jackson asked me to make the exhibit; he didn't tie me down to any method, but I have discussed my method with him.

Q. But this exhibit as it now appears in final form expresses your views as an accountant?

A. Yes, sir.

Q. And your opinions as an accountant?

A. Yes, and it has been approved, of course, by my superiors.

Mr. Lange: I think that is all.

The Trial Examiner: You may step down, Mr. Smith.

(Witness excused.)

Mr. Lange: We at this time desire to offer this exhibit.

The Trial Examiner: Any objection?

Mr. Spencer: I object to it generally as being wholly irrelevant and immaterial to any of the issues involved in this proceeding and specifically because the working capital requirements of Canadian River Gas Company are covered by a contract which has been placed in evidence here, namely, the contract dated January 3rd, 1928 between Canadian River Gas Company and Colorado Interstate Gas Company covering the purchase and sale of gas.

The Trial Examiner: The objection will be overruled.

Mr. Lange: Then Exhibit 171 is admitted?

The Trial Examiner: Exhibit 171 will be received.

In Exhibit 276, Witness Lusk, entitled, "Required revenues from gas on a regulatory rate basis all gas delivered at Clayton Junction, New Mexico to Colorado Interstate Gas Company 1939 to 1947 inclusive," he determined the average working capital for the years 1939 to 1947 inclusive (shown on Statement 12), and in Exhibit 277, entitled "Required revenues from gas on a regulatory rate basis resale gas alone delivered at Clayton Junction, New Mexico, to Colorado Interstate Gas Company," he determined the average working capital for the same years (shown on Statement 12).

The following are the amounts so determined:

(From Exhibit 276) (Statement 12) Year	Average Working Capital (All Gas)	(From Exhibit 277) (Statement 12) Year	Average Working Capital (Resale Gas Only)
1939	$190,000 (A)	1939	$165,000
1940	205,000	1940	175,000
1941	220,000	1941	190,000
1942	230,000	1942	200,000
1943	245,000	1943	215,000
1944	265,000	1944	235,000
1945	275,000	1945	245,000
1946	285,000	1946	250,000
1947	275,000	1947	245,000

Note: (A) as shown in Exhibit 192.

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55. Operating Costs of Canadian, 1928 to 1939, Inclusive, and as Estimated, 1940 to 1947, Inclusive.

These costs are shown for 1928 to 1939, inclusive, in Exhibit 91, Witness Lusk. He explained (Vol. XIX, pp. 2613, et seq.) that this statement is a summary of all operating and maintenance costs, 1928 to 1939, inclusive, as reflected on the books, except for certain adjustments which were considered necessary in order to propertly allocate certain costs to the proper years. The system of accounts maintained by the company is designed primarily to record all its costs in such a manner as to determine amounts due from time to time for gas sold, and to facilitate settlements under the contract entered into between Canadian and Colorado Interstate under date of January 3, 1928 (Exhibit 16) covering the purchase and sale of gas. In keeping with the accounting for costs, as defined under that contract, Statement 1 shows, as part of such costs, interest, federal income taxes and the amount of debt retirement for each year; likewise and for the same reason, revenues from sources other than from the sale of natural gas are shown as credits to the gross cost of operating and maintaining the properties.

MR. LUSK testified on direct examination: (Vol. XIX, pp. 2612-2625.)

By Mr. Spencer:

Q. Mr. Lusk, have you prepared at my request a statement showing the operating costs as adjusted of Canadian River Gas Company for the period 1928 to 1939, inclusive?

A. I have.

Mr. Spencer: I would like to have the statement referred to by Mr. Lusk marked for identification as an exhibit.

The Trial Examiner: It will be marked for identification as Exhibit No. 91.

(Exhibit 91, Witness Lusk, marked for identification.)

Mr. Spencer: I am short on copies.

Q. Do you have a written statement in connection with this exhibit, Mr. Lusk?

A. Yes, sir.

Q. Will you please read that into the record?

A. "The attached Statement No. 1 sets forth all costs of operating and maintaining the properties of Canadian River Gas Company for the period 1928 to 1939, inclusive. This statement is a summary of all operating and maintenance costs of the company for the period mentioned as reflected on its books except for certain adjustments which were considered necessary in order to properly allocate certain costs to the proper years. The system of accounts maintained by the company is designed primarily to record all its costs in such a manner as to determine amounts due from time to time and to facilitate settlements under the contract entered into between the company and Colorado Interstate Gas Company under date of January 3, 1928, covering the purchase and sale of gas. Accordingly, such system of account does not conform, and does not purport to conform, to any classification of costs in a strict accounting sense.

"In keeping with the accounting for costs as defined under the above-mentioned contract the attached Statement No. 1 shows, as a part of such costs, interest, Federal in-

come taxes and the amount of debt retirement for each year; likewise, and for the same reason, revenues from sources other than from the sale of natural gas are shown as credits to the gross cost of operating and maintaining the properties.

"Certain unallocated items appearing in the profit and loss suspense account and the surplus account from time to time have been replaced back to the year in which such charge should have been made. These items consist principally of Federal income taxes paid in the year following that in which they were incurred.

"Statement No. 2, also attached, is a summary of gas expense indicated on Line 3 of Statement No. 1. Statement Nos. 3 to 9, inclusive, show the detailed analysis of gas expense shown by Statement No. 2. Statement No. 10 shows gasoline expense and Statement No. 11 shows all other miscellaneous costs."

Q. Now, Mr. Lusk, in the first paragraph of your statement it refers to a contract dated January 3, 1928 between Canadian River Gas Company and Colorado Interstate Gas Company. Is that contract Exhibit No. 16 in these proceedings?

A. Yes, sir.

Q. Are you generally familiar with that contract?

A. Generally, yes, sir.

Q. I wish you would briefly outline for the Examiner the principal features and characteristics of that particular contract from the standpoint of accounting.

A. Well, Article X of that contract sets forth—

The Trial Examiner: By the way, that contract is in evidence, isn't it, Mr. Spencer?

Mr. Spencer: Exhibit No. 16.

The Witness: Article X of that contract sets forth certain definite and specific allocations of costs, divided between a cost rate to the Amarillo Oil Company and a gas rate factor to the Colorado Interstate Gas Company.

Generally it consists of amortization of the cost of productive gas wells; operation and maintenance of production

system; operation and maintenance of land department; gas royalties; rentals and unoperated leases; two-thirds of the unallocated general administrative and office expense; two-thirds of the profit and loss expense account; other profit and loss expense accounts; amortization of the cost of leases; one-half the requirements of the sinking fund; one-half the interest on the bonds; operation and maintenance of the meter department; taxes on the production system and the measuring stations; two-thirds of the taxes on general unallocated property; two-thirds of the shop labor, supplies and expenses; two-thirds of the Bivins camp expense, net; two-thirds of the Bivins hotel, net; amortization of the A notes, interest on the straight notes, interest on the A notes; two-thirds of the interest on the C notes; interest on the current account; two-thirds of the interest on unfunded debt; two-thirds of the other interest, and the cost of drilling unproductive wells.

Those total costs, divided by a total production figure, equal—or are equivalent to a computed rate to the Amarillo Oil Company under Contract B.

By Mr. Spencer:

Q. In other words, that contract is also on a cost basis?
A. Yes, sir.

Q. The price of gas under that contract is determined by so-called cost accounting?
A. Yes, sir.

Now, in addition to that the operation and maintenance of the gathering system, the operation and maintenance of the compressor system, and the operation and maintenance of the transmission system, and one-third of the unallocated general administrative and office expense; one-third of the profit and loss expense; one-half of the requirements for sinking fund; one-half of the interest on bonds; taxes on gathering, compressing and transmission system; one-third of the taxes on general unallocated property; one-third of shop labor, supplies and expenses; one-third of the Bivins camp expense, net; one-third of the Bivins hotel, net; amortization of the B-1, B-2, B-3 and B-4 notes; one-third of the amortization of the C notes, interest on the B notes; one-third of the interest on the C notes; interest on the

current account; one-third of the interest on unfunded debt; one-third other interest, and the rental and operating expense of lease facilities.

Now, the sum total of that is divided by the total Mcf. delivered to the Colorado Interstate Gas Company and that determines their portion of the factor, the total resulting in a total overall rate to the Colorado Interstate Gas Company. All is defined under that contract and under which the cost accounting for gas purchased and sold of the Canadian River Gas Company.

Q. Have you sufficiently described how the revenues from the sales of gas to others than Amarillo Oil Company and Colorado Interstate Gas Company are treated ultimately, not in this particular exhibit but you might clarify it for the Examiner to show how other revenues derived from the sales of gas are treated.

A. Well, the Canadian River Gas Company also delivers gas for the account of the Colorado Interstate Gas Company to the Natural Gas Pipeline Company of America. That rate is also the same rate at the present time as the Colorado Interstate Gas Company rate.

Q. It has some sales to Amarillo Oil Company at a fixed price?

A. Yes, there are sales to the Amarillo Oil Company at a fixed price.

Q. Now, would it be fairly accurate to characterize the operations of Canadian River Gas Company as constituting a non-profit company under this contract?

Mr. Lange: I believe that's a conclusion. The accounting figures will reflect whether there is a profit or not. Whether the operations are termed "non-profit" or whether they are termed "profit" I think is purely a conclusion, especially since they are attempting—I suppose there is some attempt being made to tie it in with a provision in a contract which attempts to say that a certain operation is non-profit. That is for the Examiner and the reviewing authorities to determine. That ties in with a provision, the way I see it, with a provision in a contract alleging that such and such a situation obtains.

Mr. Spencer: Well, I'll withdraw it, Mr. Examiner, and start again. You won't have to decide that one.

Q. I notice an item of income taxes in this statement. Will you explain how the company might have income subject to income tax under this character of contract?

A. Well, it all came about with the rulings of The Internal Revenue Department that certain depreciation was not allowable. Therefore, the company was assessed amounts of income taxes from approximately 1931 right down to 1939.

Q. That is to say that there is a difference between the amortizations under the contract and the amortizations, broadly speaking, that are allowed by the Bureau of Internal Revenue for income tax purposes?

A. Well, the Bureau of Internal Revenue wouldn't allow amortization of debt to be included in amortization under any other form, under any circumstances.

Q. Did the original contract, Exhibit 16, make any provision for income taxes?

A. No, sir, it specifically exempted all forms of income tax.

Q. When income taxes developed by reason of this difference in amortization, were arrangements then made to include income taxes as a part of the cost of gas?

A. Yes, sir.

Q. And they have been included subsequently?

A. Yes, sir.

Q. Will you take your statement, Mr. Lusk, starting with Statement No. 1 and go through each statement giving a brief description of what the statement is, in a little more detail than you have in your written statement?

A. Statement No. 1 is an overall summary of the operating costs adjusted, and Line 1, "Gas Purchased," the last gas purchased year was 1935. There hasn't been any purchase—for 1936, 1937, 1938 and 1939. The gas purchased from various producers in the field, might be small drillers, but principally I believe Red River Gas Company.

Item No. 2, "Gas Royalties," is the amount paid to the lessor under a stipulated amount agreed upon in the lease.

Item No. 3, "Gas Expense," is further detailed on Statement No. 2 giving the systems and those systems are further detailed by Statements 3 to 9, inclusive.

Item 4, "Rentals on Unoperated Leases," are the rentals paid to the lessors.

Mr. Lange: Right there, are those the delay rentals?

The Witness: Delay rentals, yes, sir.

By Mr. Spencer:

Q. Also, the nomenclature that you have used here is the nomenclature of the company as appearing on its books? A. That's right.

Line 5, "Rental and Operating Expenses of Leased Facilities," is the amount paid for the transmission of gas from Fritch to Gray, Oklahoma.

Line 6, "Gasoline Expense and Royalties," is the amount of expense incurred at the Fritch gasoline plant, the royalties paid to lessors for gas. It includes the royalties received on the gas passing through Fritch to the Chicago line, less the royalty.

Item 7, "Bivins Camp, Dining Room, Hotel and Store Expense," is the cost of operating the camp, the dining room and the hotel at Bivins compressor station.

No. 8, "Shop Expenses," is a small amount. That is also at Bivins.

Item 9, "Taxes," are the advalorem taxes and all other forms of taxes except federal income tax.

Line 10, "Other Miscellaneous Expenses," the principal item of which being non-productive well drilling expense.

Line 12, "Other Revenue (Exclusive of Sale of Gas)," all of the gasoline revenues from the operation of the gasoline plant at Fritch—or at Bivins, excuse me.

No. 13 is "Rent Revenues," principally derived from the rental of houses around the Bivins compressing station.

Item 14 is the "Bivins Hotel, Dining Room and Store Revenues," received from the Bivins Hotel, dining room and store.

Item 15, "Other Miscellaneous Revenues," is the miscellaneous amount shown each year with the exception of the first year, where the amount is large.

Item 16, "Interest Revenues," are the amounts derived principally from loans made to employes.

Item 17 is the "Total Other Revenues (Exclusive of Sale of Gas)"—

Q. Right there, Mr. Lusk, Items 12 to 17, inclusive, as totaled in Item 18 are applied as a credit against Item 11 above?

A. Yes, that's correct.

Line 18 is the difference between Lines 11 and 17.

Item 19 is all interest paid on the bonded indebtedness of the Canadian River Gas Company and the notes and the amount of interest assessed by the Internal Revenue Department on tax deficiency.

Item 20 is the "Amortization of Debt," including all of the notes.

Item 21, "Federal Income Taxes," set back into the year applicable.

Item 22 is the "Total Interest, Amortization of Debt and Federal Income Taxes," and

Item 23 results in the total operating costs as adjusted.

Q. Do you have any further explanation with respect to the subsequent statement?

A. Well, Statement 2, I previously mentioned, was the summation of the gas expense by systems, and Statement 3—

Q. That particular statement includes all operations of the company, that is to say, production system, gathering system, compressing station, transmission sytem—.

A. Yes, it does. It begins with production system and goes down through gathering system, compressing station, transmission system, and all other operating expenses of the company, with the gas used in operations set in as a credit.

Q. Statement No. 3, Mr. Lusk?

A. Statement No. 3 is the detail of the production system. Also shown on Statement 3 is the gathering system operation and maintenance expense.

Statement 4 shows the compression station operations,

and maintenance, and also on Statement No. 4 is the transmission system operating and maintenance expense.

Statement 5 is the land department expense.

Statement 6 is meter department.

Statement 7 is Amarillo office.

Statement 8 is telephone department.

Statement 9 is general administrative expenses.

Statement 10 is gasoline expenses, Bivins only.

Q. That is—you mean the expense of operating the gasoline plant?

A. At Bivins, yes.

Q. Yes.

A. Statement 10 are all the other miscellaneous expenses.

Q. Statement 11, you mean?

A. Statement 11.

Q. Now, Mr. Lusk, you have mentioned in your statement here, something about adjustments which you found it necessary or advisable to make. Will you amplify that a little bit?

A. Well, the principal adjustments that I made, as I stated, as has been stated in this written statement, the Federal income taxes set back, and also a breakdown and a re-allocation to the years of the audit made in 1934.

Q. After giving effect to those adjustments, all of your figures in these statements can be tied back into the financial statements and records of the company?

A. They are tied back, not in this statement but the working papers.

Q. Do you have working papers? You have working papers which do tie your figures into the company's financial statement?

A. Yes, sir.

Q. Are those working papers to be available to counsel?

A. Yes, sir.

Q. Accountants for the Commission?

A. Yes, sir.

Mr. Spencer: Now, Mr. Examiner, unfortunately I wasn't

able to give counsel for the Commission a copy of this exhibit until this morning; in fact, it wasn't completed until this morning. I am willing to make—in fact, I would like to make a request for an adjournment at this time until 2:00 o'clock to give Commission's counsel and their accountants an opportunity to look it over. I believe it will expedite the cross examination, and we can use the time to good advantage, unless the Commission's counsel has some objection.

Mr. Lange: I think we can go ahead at this time with the basic matter that we want to interrogate about. I don't know how much additional information we would be able to assemble between now and 2:00 o'clock in the matter, and if it is agreeable with the Examiner, why, we can proceed.

Mr. Spencer: That's all right.

The Trial Examiner: We will stand in recess for five minutes.

(At this point a short recess was taken, after which proceedings were resumed as follows:)

The Trial Examiner: The hearing will be in order.

Mr. Spencer: That is all of the direct examination I have.

* * * * * *

In the course of his cross-examination Mr. Lusk testified: (Vol. XIX, pp. 2625-2633.)

Cross Examination.

By Mr. Lange:

Q. Mr. Lusk, Exhibit No. 91, which has just been identified, covers the period from 1929 to 1939, inclusive—December 31, 1939?

A. Yes, sir, by years.

Q. By years?

A. Yes, sir.

Q. And you mention on the first page of your written statement that this exhibit was prepared in accordance with provisions of that contract between Canadian River Gas Company and Colorado Interstate Gas Company?

A. This exhibit was prepared from the books of the Canadian River Gas Company, which books are set up in accordance with that contract.

Q. They are set up in accordance with that contract?

A. Yes, sir.

Q. And the provisions of that contract which you read?

A. That is correct.

Q. And you followed those provisions of that contract in connection with the preparation of this exhibit?

A. Well, each year—

Q. Just explain what you did on that.

A. Each year I verified the operating statements of the company as closely as I could follow that contract. I spent nights and days doing it.

Q. Well, now, what are the provisions with reference to its life? During what period is it operative?

A. From 1928 to 1948.

Q. 1928 to 1948?

A. Yes, sir.

Mr. Spencer: May I ask a question here, Mr. Lange?

Mr. Lange: Surely.

Mr. Spencer: That is the fixed term of the contract?

The Witness: The fixed term of the contract.

By Mr. Lange:

Q. There are also provisions for carrying on beyond that date?

A. I couldn't say. I don't just recall what the provision is.

Q. All right, the contract will show.

Have you had occasion to see if there is a provision for carrying on beyond that date?

A. No, sir.

Q. Now, then, Mr. Lusk, if you were preparing an exhibit that was intended to reflect the cost of operation of Canadian River Gas Company, preparing it as an accountant, and weren't bound by the provision of that contract, would you have set them up as you have in this fashion?

A. Ordinarily I would with the exception of Item 20, Amortization of Debt.

Q. Well, that is on Statement 1?
A. Statement 1, yes, sir.
Q. All right, what does that item reflect as set up by you in Statement 1?
A. That is the requirement of the bonded indebtedness of Canadian River Gas Company and the payment of the notes given to the Colorado Interstate Gas Company when due.
Q. If you hadn't been following the provisions of this particular contract as an accountant, how would you have handled that particular item?
A. I wouldn't have put that in a cost statement at all.
Q. You wouldn't have put it in a cost statement at all?
A. No, sir.
Q. Why?
A. Because it is not an item of cost
Q. In other words—
A. It is in a separate sense.
Q. Is that what you were referring to the other day, that you would rather be an accountant and didn't want to be a dog-catcher for putting it in that particular place?
A. That is right.
Q. So you became a dog-catcher at this time in putting it in?
A. No, I am strictly following the terms of that contract. I make the statement here that it does not conform or purport to conform to any classification of cost in a strict accounting sense.
Q. It does not?
A. But accountants are generally required to follow the contract.
Q. They are? And that is what you did in this case?
A. That is what I did in this case, I followed the contract.
Q. All right, what other item would you have handled in a different fashion if the provisions of the contract had not been binding upon you to follow?
A. Well, I would have eliminated the other revenues.
Q. What are you referring to?
A. The Gasoline Revenues from Item 12 to Item 18, inclusive.
Q. Item 12 to 18, inclusive?
A. Yes, sir.

Q. All right, why would you have eliminated them?

A. Because—

Mr. Spencer: Just a minute.

I would like to get clearly the basis for the question "Why would you have eliminated them?" That is what Mr. Lange asked. The witness has already testified that he is merely setting down a summarization of what the company shows on its books and records in their system of accounts under this contract.

Mr. Lange: He is an accountant and has stated his experience as to what the accounting procedure is. He has qualified this statement specifically on Page 1 where he says: "Accordingly, such system of account does not conform, and does not purport to conform, to any classification of costs in a strict accounting sense."

I want to know what he would have done if he had followed such an accounting basis.

Mr. Spencer: I have no objection to your question. What I want to know is whether he is expressing his own opinion as to how the accounts would have been set up under different circumstances or what the company would have done under different circumstances.

Mr. Lange: I am asking him for his own opinion as an accountant, as an expert.

Mr. Spencer: All right.

The Trial Examiner: Do you recall the question, Mr. Lusk?

The Witness: Yes, sir, I understand the question.

The total of Other Revenues, instead of being deducted from the total expense, ordinarily would be set up as a revenue item and not as a credit to expense.

By Mr. Lange:

Q. And there is one other item you didn't mention in that connection, or did you not intend to mention it? What would you have done with Item 19?

A. The Item of Interest would be set down in its proper place.

Q. Where?

A. Below the line.

Q. Below the line?

A. Yes, sir.

Q. In other words, the way you have it now you would not have followed such procedure under ordinary accounting methods?

A. No, I would have taken the ordinary accounting classification and set that up for the ordinary operating revenues and expenses of Canadian River Gas Company or any other company.

Q. This item of Interest, what does that include?

A. That includes the interest on the bonds, interest on the notes, and interest on the open account.

Q. Of Canadian River Gas Company?

A. Yes, sir.

Mr. Spencer: Open account with whom?

The Witness: The Colorado Interstate Gas Company.

By Mr. Lange:

Q. Now, then, do you know what the uniform system of accounts for natural gas companies, as promulgated by the Federal Power Commission, would show with reference to the proper treatment of Items 2 to 18 that you just mentioned?

A. They would set them up as "other revenues."

Q. How would Item 12 be set up under the uniform system of accounts?

A. As "gasoline revenues."

Q. Do you know the provision of the uniform system of accounts for natural gas companies with reference to the proper handling of that particular item of Gasoline Revenues for natural gas companies?

A. No, I am not familiar with that particular section of the code, no, sir.

Q. You have had occasion to study the provisions of that code?

A. Yes, sir.

Q. And the instructions it contains and the classification of accounts set forth?

A. I don't recall the present new Federal Power Commission—I have read it through several times but I don't know just what classification was used for gasoline—

Q. As I understand it, you didn't give any consideration to the classification as provided for under that code?

A. Not in this exhibit.

Q. Now, then, I also note on Statement 4 that you have Item 21, "Federal Income Taxes." Where would you have placed those if you hadn't been limited by the terms of this contract?

A. Well, in the ordinary classification as set up, as we might call it, those Federal income taxes would be down below the line as other deductions from income.

Q. And in connection with Federal income taxes, you mentioned something with reference to the provision that was taken by the Bureau of Internal Revenue Department some time ago in connection with the company's operating accounts. What exactly was done at that time?

A. The intent of this contract, as I read it, and as I generally followed it, was that the amortization of debt would be exactly equal to the depletion and depreciation taken by the company which would result in a zero net income. Unfortunately, the Bureau of Internal Revenue doesn't look upon it in that light.

* * * * *

Mr. Lusk further testified on cross-examination: (Vol. XIX, pp. 2640-2644.)

Q. Referring back to your statement with reference to the changes made or recommended by the Internal Revenue Department, what did the Internal Revenue Department have to say with reference to the company's method of setting up depreciation or depletion on its books?

A. Well, the principal objection of the Internal Revenue Department in the early years was the disallowance of the difference between the cost of the leases and the amount that the company had taken as a depletable base.

The Internal Revenue Department also recommended certain changes and they were adopted by the company, adopted in 1931, in which the company accepted depreciation on a 25-year life basis.

Q. And what had the company set up on its books before that time?

A. The company originally started out to depreciate all of its depletable property on a 20-year life basis, five per cent.

Q. And what was the company's reason for setting them up on a 20-year life basis?

A. It was the life of the contract.

Q. That was for the purpose of tieing in with the provision of that contract?

A. That was the original intent, yes, sir.

Q. Then, when the Internal Revenue Department suggested the change, did the company set up its depreciation on that basis as recommended by the Internal Revenue Department?

A. They did—unfortunately, they did.

Q. What year was that?

A. About 1931.

Q. 1931?

A. Yes, sir.

Q. Why do you say it was unfortunate that the company had to do it on that basis?

A. I am glad you asked that question, Mr. Lange.

Q. All right.

A. Because that is one—

Q. We want to air the whole thing. Let's get the reason for it.

A. I could never understand why the Canadian River Gas Company accepted the rule of the Internal Revenue Department and attempted to fit those rulings into the corporation accounting. They should be set up following their own practices and thoughts. The Internal Revenue Department is interested in taxes and not in corporation accounting.

Q. Well, but you just said they didn't set that up according to their own plans and thoughts but set it up to be complying with the provisions of that contract.

A. No, I didn't.

Q. You say they set it up on a 20-year basis according to the contract?

A. That is correct.

Q. Their opinions or views didn't enter into that after that became fixed?

A. What I am quarreling about is why did they have to accept the Internal Revenue Department's rulings? They could still have gone on a 20-year life basis.

Q. Well, when the Internal Revenue Department made those changes or required those changes to be made, who was in charge of the accounting department of the company at that time?

A. Either—I think it was Mr. Simpson.

Q. Mr. Simpson?

A. Yes, sir.

Q. He is the Mr. Simpson referred to previously in this testimony?

A. Yes, sir.

Q. What was his opinion about it?

A. Why, I imagine that he took the matter up with New York and Amarillo and he was instructed to follow the Internal Revenue Department's ruling.

The operating costs summarized on Statement 1 for the years 1928 to 1939, inclusive, year by year, are brought forward in Exhibit 163 only in so far as they relate to the property owned by Canadian. Rentals on leased facilities and revenues incidental to Chicago line gas are excluded. (Vol. XXXXIII, p. 5952.) These costs as they relate only to property owned by Canadian are extended through the year 1947, and will therefore not be set forth here, but will be set forth in connection with Exhibit 163, which will now be abstracted.

The costs of operations are extended through 1947 in Exhibit 163, Witness Rhodes. (Vol. XXXXIII, pp. 5948, et seq.) In estimating these costs he gave effect to the trends of costs in the past, as shown by Exhibit 91, and to the additional costs resulting from the added facilities listed in Exhibit 66 as to transmission, and in Exhibit 94 as to production and gathering. These costs include not only the operating and maintenance expense, but also interest and amortization of debt called for by the contract with Colorado Interstate, Exhibit 16.

In projecting the past annual costs into the future, due regard has been given to the fact that except for royalties and taxes on production, most of the annual operating expenses of production and transmission are fixed and controlled by the nature and extent of the property, rather than by the amount of gas produced and transported. In general, as a natural gas property is more fully developed, the annual expenses increase in a smaller proportion. The primary expense characteristics of Canadian River property have been studied and determined as related to each class of

property and expense, and form the basis for projecting into the future the past normal expenses of the company. Major well repairs have been separately allowed for.

Interest and amortization of the company's debt have been included as provided for in the contract with Colorado Interstate (Exhibit 16). Additional notes have been provided for to cover the cost of new facilities described in Exhibits 66 and 94. For the facilities required in 1940, actual costs with estimates to complete have been used. For facilities to be provided later whose costs have been testified to by Mr. Watson, such costs have been used. (Vol. XXXXIII, p. 5949.) (For added compressor station equipment costs have been based on actual costs of like facilities recently constructed. For other facilities costs have been taken which are commensurate with reproduction cost new of the Denver Line properties, as set forth in Exhibits 68, 70 and 71.)

Total annual costs of operating and maintenance expense, and the total annual interest and amortization costs projected through 1947 in the manner above described, are shown in summary form by the attached Statement 1, as follows:

Statement 1, Exhibit 163.

Calendar Year (1)	Gas Expense (B) (2)	Other Expense (C) (3)	Total Expense (4)	Deduct Other Revenues (D) (5)
1928(A)	$ 69,337	$136,303	$205,640	$123,308
1929	194,885	430,938	625,823	262,964
1930	227,996	404,937	632,933	205,274
1931	276,160	451,476	727,636	137,823
1932	242,459	405,876	648,335	117,088
1933	210,484	340,098	550,582	123,616
1934	214,668	394,904	609,572	115,408
1935	205,583	441,214	646,797	164,355
1936	236,026	491,691	727,717	193,883
1937	261,297	535,732	797,029	205,803
1938	266,593	517,534	784,127	146,511
1939	339,733	591,277	931,010	184,487
1940	418,900	633,988	1,052,888	148,034
1941	378,600	638,516	1,017,116	158,994
1942	337,100	692,675	1,029,775	162,324
1943	359,300	721,624	1,080,924	163,295
1944	365,500	757,980	1,123,480	166,486
1945	368,800	755,399	1,124,199	169,677
1946	371,900	700,584	1,072,484	169,677
1947	375,700	480,369	856,069	169,677

Notes: (A) 7 Months.

(B) Details attached—Statement No. 2.

(C) Details attached—Statement No. 3.

(D) Details attached—Statement No. 4.

Statement 1, Exhibit 163 (Continued).

Net Operating Expense (6)	Interest (7)	Amortization of Debt (8)	Federal Income Taxes (9)	Total (10)
$ 82,332	$167,801	$ 11,105	....	$ 261,238
362,859	760,111	79,499	....	1,202,469
427,659	751,864	837,537	....	2,017,060
589,813	711,391	798,016	$ 49,766	2,148,986
531,247	748,706	369,651	72,410	2,222,014
426,966	700,321	883,427	66,179	2,076,983
494,164	662,243	898,683	69,956	2,125,046
482,442	593,164	902,445	53,854	2,031,905
533,834	550,053	929,712	45,417	2,059,016
591,226	509,260	953,592	63,736	2,117,814
637,616	475,846	969,301	68,435	2,151,198
746,523	430,563	940,597	66,403	2,184,086
904,854	407,905	986,844	60,300	2,269,903
858,122	377,347	881,632	49,193	2,166,294
876,451	350,174	929,609	44,903	2,192,137
917,629	315,612	968,814	44,662	2,246,717
956,994	268,585	994,996	41,710	2,262,285
954,522	217,711	1,037,272	44,755	2,254,260
902,807	165,271	1,083,875	67,380	2,219,333
686,392	105,630	1,125,460	126,355	2,043,837

The Commission, through its accountant witness, Lester B. McKinstry, introduced in evidence, over respondent's objection, Exhibit 168. (Vol. XLVIII, p. 6578.) This is an extensive exhibit, consisting of 157 sheets, prefaced by a statement of Mr. McKinstry appearing in Volume XLVI, pages 6430, et seq. Mr. McKinstry stated his qualifications and experience in Volume XLVI, pages 6425, et seq.

Mr. McKinstry testified on direct examination as follows: (XLVI, pp. 6423-6437.)

Q. Please state your name.
A. Lester B. McKinstry.
Q. Where do you reside, Mr. McKinstry?

The Trial Examiner: How do you spell your name, please?

The Witness: M-c-K-i-n-s-t-r-y.

Denver, Colorado.

By Mr. Lange:

Q. Where and by whom are you presently employed, Mr. McKinstry?
A. The Federal Power Commission.
Q. In what capacity?
A. As an Examiner of Accounts.
Q. And what is your profession or occupation?
A. Accountant.
Q. How long have you been in the employ of the Federal Power Commission?
A. Since May 1939.
Q. May 1939?
A. Yes.
Q. Continuously up to the present time?
A. I have.
Q. During that period of time, Mr. McKinstry, have you had occasion to do any work or be assigned to do any work in connection with the present proceeding?
A. I have.
Q. What is the nature of that work?
A. Gathering accounting information particularly on in-

come and surplus accounts of Canadian River Gas Company.

Q. Of Canadian River Gas Company?

A. That's right.

Q. And how long or during what portion of your employment with the Federal Power Commission have you been on that assignment?

A. Ever since May 1939, or all of the time since I have been with the Commission.

Q. Up until the present time?

A. That is correct.

Q. Have you prepared—or, do you have with you a statement showing your qualifications in connection with the work that you have performed in this proceeding, your previous qualifications?

A. Yes, I have.

Q. Will you please read them into the record?

A. "After graduation from high school in 1917, I was employed by the Western Electric Company, whose principal business is the manufacture and distribution of communication equipment and supplies.

"I worked for this company for more than eleven years, being stationed respectively at the main manufacturing plant in Chicago, the installation division office in Philadelphia, and the general office in New York City.

"The first year of this employment was devoted to a factory accounting training course which afforded practical work in several basic clerical and accounting departments, supplemented by semi-weekly classroom lectures and discussions on the function and operation of the factory accounting system.

"Five additional years at the manufacturing plant involved, for most of this time, supervisory assignments in many of the principal accounting departments, such as vouchering, expense analyses, loading rates, cost, production report analyses and statistics, and internal auditing.

"The remainder of this employment was identified with the accounting incident to increased large-scale installations of mechanical and semi-mechanical central office telephone equipment throughout the United States. I assisted in

formulating a new accounting system adopted to account for the enlarged operations; engaged and supervised, as Division Accountant, accounting personnel numbering at one time a maximum of sixty, during more than one year spent in the Philadelphia division (one of ten comparable divisions in the United States) accounting for the industrial activities of some 3,000 engineers and installers; subsequently, in the New York City general offices, I supervised the preparation of financial reports and statistics followed by assignment to the editing of accounting instructions, the design of accounting forms and the prescription of mechanical equipment to be used in the various accounting processes.

"Concurrent with my Western Electric Company employment, I completed by correspondence an advanced course in accounting given by LaSalle Extension University.

"Early in 1929, I was employed by E. I. duPont de Nemours & Company in their Chicago paint and varnish plant, to conduct special studies relative to cost of packaging their product. This employment was terminated late in 1929, upon submission of a final report of the findings disclosed by the aforementioned special studies.

"Since 1929 and continuing into May 1939, very near all of my employment has been with the following public accounting firms, respectively, Touche, Niven & Company; Glenn Ingram & Company; and Arthur Andersen & Company. With the exception of a year or so at the beginning of this period, I served the above firms in the capacity of senior accountant.

"The accounting engagements in which I participated or which I supervised were diversified. They related principally to balance sheet and detailed audits, special investigations in connection with financing, preparation of Federal and State income tax returns, embezzlements, and other funds. In connection with these engagements, I prepared or was responsible for most of the reports and other particulars which were submitted thereon.

"These engagements afforded a familiarity with many different types of businesses, namely, utility holding and operating companies (electric, gas, water, communications,

transportation), wholesale and retail establishments, brokerage houses, finance companies, banks, clubs, restaurant, municipalities, advertising firms, private estates and institutions, industrials, such as manufacturers of automobiles, dredges and excavators, electrical and gas supplies and equipment, amusement equipment, jewelry, dairy supplies and equipment, farm machinery and equipment, railroad supplies. Engagements relating to utility businesses occupied about forty per cent of the total time expended.

"Between connections with the public accounting firms named above, I was temporarily employed by the Auditor of State for the State of Iowa from August to November 1934, inclusive, to supervise the reconstruction of general books and records relating to investment in and operation of a municipally owned electric plant and water works covering a ten-year period from date of initial construction of properties to the end of 1933.

"Also, from April 1937 through February 1938, I was employed by H. M. Preston & Company to conduct analytical surveys of client corporations contemplating recapitalization or general reorganization, and to assist in the devisement of alternative plans to accomplish the desired recapitalization or reorganization. The surveys entailed visitations to client corporation offices and properties to review all pertinent corporate, financial, and salient business particulars, running from inception of the business up to the latest fiscal period for which full recordings had been made.

"Observations were also made relative to the extent of plant facilities, and of operating and administrative personnel. Studies were also made to determine the relative financial position of client concerns with other concerns in the same line of business, together with comparisons of results from operation respecting movement within the national economic cycle as shown by selected indices for each of the years during which the client concern or its predecessor may have been in existence. The nature of the businesses dealt with involved manufacture of oil and gas well equipment and supplies, vacuum cleaners and printing presses, and a wholesale hardware distributor.

"During 1929 I attended Northwestern University School

for Commerce for one semester of advanced corporate accounting. In 1935 I completed by correspondence the advanced accounting course given by Walton School of Commerce.

"In May 1939, upon termination of employment with the public accounting firm of Arthur Andersen & Company, I was employed by the Federal Power Commission in the capacity of Examiner of Accounts and was immediately assigned to duty in the investigation of Canadian River Gas Company, et al. (Docket G-124)."

Q. Mr. McKinstry, in connection with that assignment in this proceeding, I will ask you whether you have prepared an exhibit covering the income accounts and supplemental data including Examiner's reclassifications and adjustments of Canadian River Gas Company?

A. I did.

Q. Did you also in connection with that exhibit prepare a written statement explaining in substance the important phases of that exhibit?

A. I did, yes.

Mr. Lange: I desire to have this identified, Mr. Examiner.

The Trial Examiner: It will be marked for identification as Exhibit 168.

(Exhibit 168, Witness McKinstry, marked for identification.)

By Mr. Lange:

Q. Proceed, Mr. McKinstry, with your written statement.

A. "This report sets forth the Income Accounts of Canadian River Gas Company for the years 1928 to 1939, inclusive, which are presented in thirty-three statements, schedules, and sub-schedules. It contains income accounts for each of the years 1939, 1938, and 1937, reclassified and adjusted in detail, and income accounts for each of the years prior to 1937, reclassified and adjusted as to their more apparent or significant items only.

"In presentation a distinction has been made by desig-

nating the major or master tabulations as statements, and the subordinate and supporting tabulations as schedules and sub-schedules.

"The statements, six in number, comprise Statements B1, B2 and B3, which are condensed income and earned surplus accounts per books, as reclassified and as adjusted, for the years 1939, 1938 and 1937, respectively; Statement B4, which is a tabulation of expenses suspended for the consideration of the Commission for the years 1939, 1938 and 1937; and Statements B5 and B6, which are condensed income and earned surplus accounts for each of the years 1928 to 1939, inclusive, as reclassified, and as adjusted, respectively.

"Statements B1, B2, and B3, show by major groupings of income: (1) Income per books, (2) Reclassification of Income as summarized from reclassification entries, in Schedules B10, B11, and B12, (3) Adjustments of Income, as summarized from adjusting entries, in Schedules B13, B14 and B15, and (4) Income as Reclassified and Adjusted. The purpose of the Reclassification of Income was so to restate the income accounts that all items of revenue and expense would be assigned to the year in which they were properly accruable, and furthermore, to make such transfers between accounts as were necessary to bring the classification of all items of revenue and expense into conformity with the classification prescribed in the Commission's Uniform System of Accounts. The purpose of the Adjustment of Income was to make the Income Account more nearly reflect the legitimate operating income of the company from gas operations. In addition to the four classifications above, Statements B1, B2, and B3 contain also, Items of Income Suspended for the Consideration of the Commission which are tentatively included in Income as Adjusted by the Examiner. These are more fully described and explained below in a discussion Statement B4.

"The Examiner's Reclassification and Adjusting Entries, which are summarized in the six schedules, B10 to B15, inclusive, for the years 1939, 1938 and 1937, are set forth in detail, entry by entry, mainly in Schedule B16, which is a tabulation of eighty-six entries, each of which is designated

"'Seventy-two of these entries are reclassification entries and have been marked as such by prefixing the letter 'R' to the numeral in the entry number; the fourteen other entries are adjustment entries. The entries are designated on Schedules B10 to B15, inclusive, by their numbers so that through the medium of these summaries the individual entries are related to the Income Statements presented in Statements B1, B2 and B3. In addition to entries in the '100' Series, the summaries also contain entries from the '200' and '400' Series, which were made by other Examiners primarily in connection with other reports on this company. The '200' entries are to be found in the report of Luttring and Teel relating to Gas Plant and Examiner's Adjustments, and the '400' entries are in the report of Smith and Luttring relating to Annual and Accrued Depletion and Depreciation of Gas Plant.

"The entries given in Schedule B16, as an examination of them will readily disclose, relate not only to the years 1939, 1938, and 1937, but to each of the prior years of the company's operations as well; in addition to being applied to the operations of 1939, 1938 and 1937, they have also been applied to the Income Account per books for each of the years prior to 1937, for the purpose of developing the Income Account as reclassified and adjusted for the years 1928 to 1939 as set forth in Statements B5 and B6. The year of operations which each item in an entry affects is indicated opposite the amount of the item.

"Statement B4 presents six items relating to expenses that have been suspended by the Examiner for the special consideration of the Commission. It designates them by letter, A to F, inclusive, and fully describes them, giving specific reasons why they are so classified and, in some instances, puts forth suggestions or recommendations as to the disposition to be made of them. The items may be briefly described as follows:

"Credits and expenses relative to the joint operation of Texoma Natural Gas Company's gasoline extraction plant, Legal Expenses, Management, Supervision, and Special Services and Expenses, General and Administrative Expenses which are now asserted by the company to be capital expenditures, Rate Case Expenses, and Federal Income

Taxes. These items were suspended by the Examiner in his attempt to determine whether or not they were properly allowable as revenue or expense, or if so, to what extent, because he had no adequate precedent to guide him, or else lacked sufficient information about the items themselves.

"Schedules B17, B18, and B19, and their sub-schedules support the item 'Operating Revenues,' which appears on Statements B1, B2 and B3, for the years 1939, 1938 and 1937, respectively. By customer, these schedules show revenue from sales, number of Mcf. sold, average rate per Mcf. sold, point of delivery, and contract metering base. By customer, each of which is affiliated with this company, these schedules show point of delivery, contract metering base, revenue from sales per books and as adjusted, number of Mcf. sold on contract metering base and as translated to a uniform base of 14.65 lbs. pressure per square inch, and the average rate per Mcf. on the contract metering base and on the uniform base of 14.65 lbs. Shown also are minor sundry revenues derived from sources other than sale of natural gas.

"Schedules B20, B21, and B22, support the item 'Operating Expenses,' which appears on Statements B1, B2 and B3, for the years 1939, 1938 and 1937, respectively. By account, these schedules show Production, Transmission, and Administrative and General Expenses, per books and as reclassified and adjusted. They also show Suspensions. Opposite the amount of each reclassification and adjustment the number of the Examiner's Reclassification or Adjusting Entry is given. The operating accounts are arranged in the schedules to agree as closely as practicable with the classification prescribed in the Commission's Uniform System of Accounts. Each of the schedules is supported by subschedules; B20 and B21 by three of them, and B22 by two. The particulars on gas well royalties for the year 1937 are not presented for the reason that they are not comparable with those for the two subsequent years during which two large leasehold consolidations were introduced. Hence, there is one less subschedule in support of Schedule B22.

"The two subschedules common to all three schedules, B20, B21, and B22, present a summary and details of Resi-

duals Produced and Residuals Operation Expenses per books and as adjusted, ~~and an~~ analysis of General Law Expenses. The two subschedules on Gas Well Royalties supporting Schedules B20 and B21 show by lease number total amount of the royalties per books and as adjusted, together with certain other pertinent information.

"Schedule B23, which is a Comparative Summary of Operating Expenses for each of the years 1934 to 1939, inclusive, supports the item 'Operating Expenses' for those years which appears in Statement B6. By account, this Schedule shows Production, Transmission, and Administrative and General Expenses. As has already been pointed out, the operating expenses for the years 1934, 1935, and 1936, are reclassified and adjusted for apparent and significant items, and for the years 1939, 1938 and 1937, they are reclassified and adjusted completely. The figures of this schedule for the last three years are identical with the figures shown in the 'As Adjusted' column of Schedules B21, B22, and B23, and were repeated in this schedule as part of a comparison of the individual operating expense accounts for the six years ended December 31, 1939. Subschedules Nos. 1 and 2 of Schedule B23 are comparative analyses of maintenance expenses of gas well equipment and of field line equipment, respectively, showing those expenses for the six years ended December 31, 1939. Schedule B23 and its subschedules contain comments pertinent to certain fluctuations which the comparisons that they present reveal.

"Schedule B24 shows for each of the years 1939, 1938 and 1937, respectively, the amount of each type of taxes charged against operations per company's books, the Examiner's reclassification and adjustment of these taxes to restate the amount thereof truly applicable to each year, and Taxes as Adjusted. The number of each reclassification or adjusting entry is shown opposite the amount of the entry. This Schedule also sets forth the amount of each year's Taxes Suspended for the Consideration of the Commission. The amounts of Total Taxes shown on this schedule tie in with the amounts shown on Statements B1, B2 and B3.

"Schedule B27 shows certain minor Non-recurring Expenses for the years 1939 and 1938. They are all related to transactions in connection with the consolidation of natural

gas leaseholds. This schedule ties into Statements B1 and B2."

Q. Now, Mr. McKinstry, turning to your Exhibit 168, the first page, I see it bears the approval signatures besides your own of Kenneth L. Smith, Examiner in charge of field assignment; Harold Tomlin, Examiner in charge of regional office; and Charles W. Smith, Chief, Bureau of Accounts, finance and rates.

A. That is correct.

Q. All of whom are officials in that capacity with the Federal Power Commission?

A. Yes, sir.

On cross-examination MR. MCKINSTRY testified: (Vol. XLVII, pp. 6446-6460.)

Q. I believe you have testified heretofore as to your qualifications?

A. I have.

Q. Your first major employment began with Western Electric Company?

A. That is true.

Q. You also testified that commencing in 1929 and continuing on up until May 1939 that you were employed by various public accounting firms; is that correct?

A. That is correct.

Q. And in that connection you had some experience with or acquired some familiarity with different types of businesses including utility holding and operating companies of various kinds, among them being gas utility holding and operating companies, is that correct?

A. That is correct.

Q. And that during this period of approximately ten years, about forty per cent of your total time was devoted to assignments relating to utility businesses?

A. That is right.

Q. How much of the forty per cent would you say, roughly, could be allocated to gas utility holding and operating companies?

A. Well, I would say approximately five per cent.

Q. Approximately five per cent of the forty per cent?

A. That is right, five per cent of the total.

Q. Are we talking about five per cent of the forty per cent or five per cent of the one hundred per cent?

A. Five per cent of the total time.

Q. I see. I assume you have had no experience with gas utility holding and operating companies except along accounting lines?

A. That is correct.

Q. You have had no operating experience?

A. No, not in the technical sense. It is purely accounting.

Q. Your responsibilities and duties have been confined to the accounting side of the operation?

A. That is correct.

Q. Now, what gas companies, either holding companies or operating properties, did you have in mind in this connection?

A. Well, there were no holding companies.

Q. No gas holding companies?

A. No gas holding companies.

Q. But you have some gas operating companies?

A. That is right.

Q. What are those, please?

A. The Peoples Gas, Light & Coke Company.

Q. Of Chicago?

A. That is correct.

Q. All right, the next one?

A. The Sioux City Gas & Electric Company.

Q. The Sioux City Gas & Electric Company?

A. Yes. That is at Sioux City, Iowa.

Q. Is that a manufactured gas?

A. Partly, and it blends gas also.

Q. It blends natural gas with manufactured gas?

A. That is correct.

There is also the Yankton Gas Company of Yankton, South Dakota.

Q. What is that, manufactured or natural gas?

A. Manufactured and blending with the—natural gas blended with manufactured gas.

Q. Is that true during the time you had some connection with their activity or is the blending something that has happened subsequent to that time?

A. I don't know as I understand the question.

Mr. Spencer: Read the question to him, please, Mr. Reporter.

(The question referred to was read by the reporter, as set forth above.)

Mr. Spencer: Then, I will ask you another question

Q. Was the Yankton Gas Company serving mixed gas at the time you had a connection with it?
A. That is right.
Q. They did?
A. They did.
Q. Is that also true of the Sioux City Gas & Electric Company?
A. That is right.
Q. Now, are there any others?
A. Yes, the Public Service Company of Northern Illinois.
Q. That is also a mixed gas operation?
A. Yes, all these are mixed gas.
Q. The whole list is in fact?
A. That is right.
Q. A combination of artificial and natural gas mixed or blended together for the purpose of distribution?
A. Yes, that is correct.
Q. Does that conclude the list?
A. That is all of the gas companies.
Q. Now, I take it there is no question that any of these companies are engaged in the production of natural gas?
A. That is true.
Q. None of these companies is engaged in the gathering of natural gas?
A. That is true.
Q. None of these companies is engaged in the transportation of natural gas in interstate commerce?
A. That is true.

Mr. Lange: Of course, that would be purely a legal conclusion as to whether they are engaged in the transportation of gas in interstate commerce. What they did will speak for itself.

Mr. Spencer: Well, Mr. Lange, if that seems objectionable to you, I will state it another way.

Q. As a matter of fact, Mr. McKinstry, are these companies, any of them, engaged in transporting natural gas by pipe line from one state to another?

A. To my knowledge, they were not.

Q. Just give me a general description, Mr. McKinstry—I don't want you to go into it in too much detail—of what your contract or connection with these four companies consisted of.

A. Well, principally it consisted of annual audits and balance sheet audits only except for the Public Service Company of Northern Illinois, I was also engaged in preparing a registration statement.

Q. Which they filed with the Securities and Exchange Commission?

A. That is correct.

Q. In connection with the issuance of some securities?

A. That is correct.

Q. You do not list here any experience you may have had in any previous rate proceeding of this character Am I correct in assuming you have had no such experience prior to this case?

A. Referring to what particular kind of rate investigation, Mr. Spencer? What have you in mind?

Q. I had in mind first a gas rate investigation.

A. Not a gas rate investigation.

Q. And have you had some connection with some other utility rate investigation?

A. Yes, in an indirect way.

Q. What class of utility?

A. Communication.

Q. Telephone?

A. That is correct.

Q. And by "indirect," what do you mean by that?

A. The audit firm of Touche Niven & Company, whom I was with, did some special work for the Illinois Commerce Commission in the City of Chicago versus Illinois Bell Telephone Company case.

Q. Did you testify in the case?

A. No, we were merely obtaining accounting data for the Commission. We were also assisting the city in the case.

Q. And I also assume you have never sat as a member or a representative of a rate-making body, is that correct?

A. That is correct.

Q. Now, in May 1939 you entered the employment of the Federal Power Commission as Examiner of Accounts?

A. That is correct.

Q. And you have been so employed since that time?

A. I have.

Q. And your first assignment was what, Mr. McKinstry?

A. On the Canadian River Gas Company, et al. case under Docket G-124.

Q. Which is a portion of the dockets involved in this present hearing?

A. I believe that is the all-inclusive docket.

Q. Now, in that connection you received certain instructions from the Commission as to the nature and scope of the work to be done?

A. Yes, in a general way.

Q. To shorten that up, did you receive the same general instructions which Mr. Luttring has testified he received?

A. Those as now designated in Exhibit 161, I believe.

Q. I think that is correct.

A. Yes.

Q. Those are the same general instructions you received?

A. Yes.

Q. I believe you testified that you have been engaged continuously on this assignment since your employment in May 1939?

A. I did.

Q. Did you testify generally what you did after you received the assignment, I mean where you went and what you did?

A. No, I don't believe I did.

Q. Let me have that—just general.

A. Part of the work—the phase of the work which I was engaged on was wholly related to Canadian River Gas Company.

Q. Income account?

A. Income and surplus accounts.

Q. What did you do?

A. I made a review of those accounts and related them

with the instructions that were given to arrive at the exhibit that is presented here.

Q. You made an examination of the company's books and records in Colorado Springs, I assume?

A. That is correct.

Q. Also at Amarillo?

A. No.

Q. You did not go there?

A. No.

Q. Approximately how much time did you spend in Colorado Springs?

A. I'd say slightly better than a year.

Q. Slightly better than a year?

A. Yes.

Q. Did you do all of this work involved in Exhibit No. 168 yourself, eliminating entries that you are taking from other exhibits?

A. Yes, with perhaps some slight exception which I could indicate by reference to a particular entry, possibly.

Q. Well, let me state it this way: Did you have any assistants whom you supervised and directed in connection with the preparation of your portion of this Exhibit 168?

A. Yes, I did.

Q. Who were those parties?

A. George D. MacDougall, M-a-c-D-o-u-g-a-l-l.

Q. Was he the only assistant you had?

A. Well, that is, full-time assistant.

Q. Full-time assistant?

A. Yes.

Q. You had some part-time assistants?

A. Yes, I did.

Q. Did Mr. MacDougall devote his entire time to this task also in the same manner that you did?

A. Largely, yes.

Q. In your written statement, Mr. McKinstry, you have on Page 1 a sentence or two which relates to the purpose of the exhibit which you prepared. Are those the only purposes for which the exhibit is prepared?

A. I think that states it generally, yes.

Q. As a matter of fact, the exhibit was prepared for this rate proceeding, is it not?

A. That is the broad objective of the accounting matters presented here, yes.

Q. To go a little further with that, you have made a somewhat detailed—perhaps I should say completely detailed audit of the income accounts of the company for the years 1937, 1938 and 1939, have you not?

A. Quite so, as required by the nature of the accounts.

Q. And you have not made such a detailed audit or study of the accounts for years prior to 1937, is that correct?

A. Only to the extent that certain transactions that carried through in a significant amount the preceding years.

Q. Yes, I think that is what you call them, "significant items are carried through," but you don't attempt in this study to make a detailed audit of the accounts for the years prior to 1937, is that correct?

A. Not in the same sense that we did for 1937, 1938 and 1939.

Q. Now, in selecting the three years on which you were going to do the major operation, how did you happen to select 1937 and 1938 and 1939 rather than some other three-year period? I am still getting back to the purpose of the exhibit.

A. Well, I think those were verbal instructions or arrangements that developed in the course of preparing this exhibit.

Q. Verbal instructions from whom?

A. From my immediate supervisor.

Q. And who was he?

A. Mr. Kenneth L. Smith.

Q. Well, isn't the purpose of this exhibit—and I'm not trying to put words in your mouth—to show to the Commission or anyone else that may be interested, what the picture of this company has been from an income and operating expense standpoint for the last three years during which you have complete information; is that so?

A. I don't think there is any intention to limit it to three years. I think the basis is very clearly stated without any—

Q. Well, why didn't you take four years, then, for the complete audit that you made with respect to the last three years?

A. As I indicated previously, this was the decision based or the instructions handed down that three years were to serve the purpose.

Q. What purpose?

A. For the purpose of the more complete examination and the years for which complete adjustments were to be made.

Q. Then as to why these particular three years were selected or why three years rather than five years or some other period was selected you do not know? You received instructions from others as to that, is that correct?

A. As I stated before, three years were adjusted completely according to instructions.

Q. I take it you are not a rate expert, Mr. McKinstry?

A. What do you include in that category? I believe that I have stated my qualifications which are basically related solely to accounting matters.

Q. I think that is a fair question, so I will ask you this: Do you consider yourself qualified by experience, education, or otherwise, to consider testimony and then determine the reasonableness or fairness of rates in a proceeding such as this?

A. I do not believe that I am attempting here to—

Q. That doesn't answer the question.

A. Will you restate the question, please?

(The question referred to was read by the reporter as set forth above.)

The Witness: No, I do not.

By Mr. Spencer:

Q. In connection with one of the purposes which you cite for making this exhibit, Mr. McKinstry, on Page 1 of your written statement you have this clause:

"* * * to make such transfers between accounts as were necessary to bring the classification of all items of revenue and expense into conformity with the classification prescribed in the Commission's Uniform System of Accounts."

Do I understand from that that what you have done here and what we will discuss later is in all instances in accordance with the Commission's Uniform System of Accounts?

A. I believe that the System of Accounts must be used in conjunction with certain accounting conventions. In other

words, the system of accounts is not complete in every detail. It is a broad outline.

Q. In other words, what you have done is, you have used the Commission's Uniform System of Accounts where you found some applicable provision?

A. No, I will say that the pattern is determined by the system outlined in the Uniform System of Accounts.

Q. Are you talking about the general pattern?

A. That is correct.

Q. Would you say that you have found support or confirmation for all of the entries that you have made here in the Commission's Uniform System of Accounts?

A. I believe that in the spirit of the Uniform System of Accounts, yes.

Q. In the spirit of the Uniform System of Accounts as you interpret it?

A. That is correct.

Q. Have you at any point in determining what should be done with respect to a certain item or transaction fallen back on your own judgment or opinion or conclusion as to what should have been done?

A. Well, I think the whole basis of accounting is a matter of judgment and I have done that.

Q. I am speaking of judgment at this time differentiating from any specific provision of the Uniform System of Accounts which you might have had available to guide you.

A. Well, I think without relation to specific instances that I would rather not answer the question.

Q. You would rather have me ask you that as we go along through the exhibit?

A. Yes, sir.

Q. You are not prepared to give a definite answer yes or no on that question at this time?

A. That is right.

The general nature of the exhibit is indicated by the following excerpts from the written statement prefacing the exhibit proper (Vol. XLVI, pp. 6430, et seq.):

"This report sets forth the Income Accounts of Canadian River Gas Company for the years 1928 to 1939, inclusive, which are presented in thirty-three state-

ments, schedules, and subschedules. It contains Income Accounts for each of the years 1939, 1938, and 1937, reclassified and adjusted in detail, and Income Accounts for each of the years prior to 1937, reclassified and adjusted as to their more apparent or significant items only.

* * * * *

"The Examiner's Reclassification and Adjusting Entries, which are summarized in the six schedules, B10 to B15, inclusive, for the years 1939, 1938, and 1937, are set forth in detail, entry by entry, mainly in Schedule B16, which is a tabulation of eighty-six entries, each of which is designated by one of a series of numbers that run from 100 to 185. Seventy-two of these entries are reclassification entries and have been marked as such by prefixing the letter 'R' to the numeral in the entry number; the fourteen other entries are adjustment entries. The entries are designated on Schedules B10 to B15, inclusive, by their numbers so that through the medium of these summaries the individual entries are related to the Income Statements presented in Statements B1, B2, and B3. In addition to entries in the '100' Series, the summaries also contain entries from the '200' and '400' Series, which were made by other Examiners, primarily in connection with other reports on this Company. The '200' entries are to be found in the report of Luttring and Teel relating to Gas Plant and Examiner's Adjustments, and the '400' entries are in the report of Smith and Luttring relating to Annual and Accrued Depletion and Depreciation of Gas Plant."

As shown from the above quoted portion of the preface statement to this exhibit, there are 72 reclassification entries in the exhibit which Mr. McKinstry states constitute reclassifications of accounts appearing upon the books of the company for the purpose of complying with the accounting regulations of the Federal Power Commission applicable to gas companies. These reclassifications, however, do not result in any net change in the operating income and expense account of the company and are therefore deemed immaterial to this case and will not be abstracted.

Exhibit 168 is in part as follows:

Exhibit No. 168 1

G-124

Statement B-1
Sheet 1 of 1

CANADIAN RIVER GAS COMPANY
CONDENSED INCOME AND EARNED SURPLUS ACCOUNT
PER BOOKS, AS RECLASSIFIED AND AS ADJUSTED - YEAR ENDED DECEMBER 31, 1939

Description (1)	Schedule References (2)	Balance Per Books Unadjusted (3)	Reclassifications Debit (4)	Reclassifications Credit (5)	As Reclassified (6)	Adjustments Debit (7)	Adjustments Credit (8)	As Adjusted (9)	Suspended for Further Consideration of the Commission (10)
Utility Income									
Operating Revenues	B-17	$2,427,216.79	$ 16,033.35	$ 36,911.83	$2,448,095.27	$ 54,964.97	$ 256.69	$2,393,386.99	
Operating Revenue Deductions:									
Operating expenses	B-20	$1,075,174.94	$ 380,301.96	$ 708,920.97	$ 746,595.93	$ 843.22	$ 82,112.22	$ 665,286.93	$(9,551.75)
Depreciation		273,391.04			273,391.04	153,987.13	273,391.04	153,987.13	
Depletion		320,359.14			320,359.14	44,865.27	320,359.14	44,865.27	
(Profit) and loss on plant retirements		(4,267.64)	4,135.86		(131.78)	131.78			
Taxes	B-24	125,370.28	85,790.92	33,999.17	177,162.03		2,021.00	175,141.03	66,403.02
Nonrecurring expenses	B-25					222.60		222.60	
Total Operating Revenue Deductions		$1,790,027.76	$ 470,228.74	$ 742,920.14	$1,517,336.36	$ 200,050.00	$ 677,883.40	$1,039,502.96	$56,851.27
Net Operating Revenues		$ 637,189.03	$ 486,262.09	$ 779,831.97	$ 930,758.91	$ 255,014.97	$ 678,140.09	$1,353,884.03	
Exploration and Development Costs									
Delay rentals		$ 5,770.18	$ 6,628.40	$ 8,611.25	$ 3,787.33	$ 6,614.25		$ 10,401.58	
Nonproductive well drilling			29,293.73		29,293.73			29,293.73	
Abandoned leases		3,232.63			3,232.63		$ 1,354.46	1,878.18	
Total Exploration and Development Costs		$ 9,002.81	$ 35,922.13	$ 8,611.25	$ 36,313.69	$ 6,614.25	$ 1,354.45	$ 41,573.49	
Net Utility Income		$ 628,186.22	$ 522,184.22	$ 788,443.22	$ 894,445.22	$ 261,629.22	$ 679,494.54	$1,312,310.54	
Other Income									
Interest revenues		$ 20,920.90			$ 20,920.90	$ 20,903.02		$ 17.88	
Miscellaneous nonoperating revenues		305,101.61	$ 298,774.18		6,327.43	6,035.04		292.39	
Nonoperating revenue deductions (Debit)		(164,359.90)		$ 163,634.05	(725.85)		$ 725.85		
Total Other Income		$ 161,662.61	$ 298,774.18	$ 163,634.05	$ 26,522.48	$ 26,938.06	$ 725.85	$ 310.27	
Gross Income		$ 789,848.83	$ 820,958.40	$ 952,077.27	$ 920,967.70	$ 288,567.28	$ 680,220.39	$1,312,620.81	
Income Deductions									
Interest on Debt to Colorado Interstate Gas Company:									
Bonds		$ 330,210.00	$ 25,285.00	$ 28,260.00	$ 327,235.00			$ 327,235.00	
Notes and current account		100,353.40	65,805.79	51,196.48	104,962.71			104,962.71	
Other interest charges		11,403.39			11,403.39			11,403.39	
Miscellaneous income deductions			352.20		352.20	$ 29,019.97		29,372.17	
Total Income Deductions		$ 441,966.79	$ 91,442.99	$ 79,456.48	$ 443,953.30	$ 29,019.97		$ 472,973.27	
Net Income for Year Ended December 31, 1939		$ 347,882.04	$ 902,401.39	$1,031,533.75	$ 477,014.40	$ 317,587.25	$ 680,220.39	$ 839,647.54	
Earned Surplus									
Credits									
Balance January 1, 1939		$3,273,961.05	$8,108,698.60	$7,903,471.37	$3,068,733.82	$3,862,274.81	$5,792,092.15	$4,998,551.16	
Balance from Income account (above)		347,882.04	902,401.39	1,031,533.75	477,014.40	317,587.25	680,220.39	839,647.54	
Total Credits		$3,621,843.09	$9,011,099.99	$8,935,005.12	$3,545,748.22	$4,179,862.06	$6,472,312.54	$5,838,198.70	
Debit - Premium on bonds retired		$ 11,900.00			$ 11,900.00			$ 11,900.00	
Balance December 31, 1939		$3,609,943.09	$9,011,099.99	$8,935,005.12	$3,533,848.22	$4,179,862.06	$6,472,312.54	$5,826,298.70	

Docket G-124

Statement B-2
Sheet 1 of 1

CANADIAN RIVER GAS COMPANY
CONDENSED INCOME AND EARNED SURPLUS ACCOUNT
PER BOOKS, AS RECLASSIFIED AND AS ADJUSTED - YEAR ENDED DECEMBER 31, 1938

Line No.	Description (1)	Schedule References (2)	Balance Per Books Unadjusted (3)	Reclassifications Debit (4)	Reclassifications Credit (5)	As Reclassified (6)	Adjustments Debit (7)	Adjustments Credit (8)	As Adjusted (9)	Suspended for Further Consideration of the Commission (10)
	Utility Income									
1	Operating Revenues	B-18	$2,315,500.92	$ 15,312.45	$ 33,865.46	$2,334,053.93	$ 48,444.26	$ 184.65	$2,285,794.32	
	Operating Revenue Deductions,									
2	Operating Expenses	B-21	$ 851,945.86	$ 361,335.50	$ 466,807.52	$ 746,473.84	$ 733.81	$ 74,077.85	$ 673,129.80	$(48,686.36)
3	Depreciation		266,950.01			266,950.01	153,008.23	266,950.01	153,008.23	
4	Depletion		140,999.72			140,959.72	36,323.03	140,959.72	36,323.03	
5	(Profit) and loss on plant retirements		(4,970.85)	3,483.95	45,675.56	(45,162.46)	45,162.46			
6	Taxes	B-24	98,347.74	105,150.47	34,425.17	169,073.04		1,832.00	167,241.04	68,434.88
7	Nonrecurring expenses	B-25					6,274.35		6,274.35	
8	Total Operating Revenue Deductions		$1,353,232.48	$ 469,969.92	$ 546,908.25	$1,276,294.15	$ 241,501.88	$ 483,819.58	$1,035,976.46	$ 19,808.52
9	Net Operating Revenues		$ 962,268.44	$ 485,282.37	$ 520,773.71	$1,022,759.78	$ 289,946.14	$ 484,004.23	$1,249,817.87	
	Exploration and Development Costs									
10	Delay rentals		$ 25,078.66	$ 6,248.50	$ 23,772.35	$ 7,604.81	$ 10,729.00		$ 18,333.81	
11	Abandoned leases		674.30			674.30			674.30	
12	Total Exploration and Development Costs		$ 25,752.96	$ 6,298.50	$ 23,772.35	$ 8,279.11	$ 10,729.00		$ 19,008.11	
13	Net Utility Income		$ 936,515.48	$ 491,580.87	$ 502,546.08	$1,047,080.67	$ 300,675.14	$ 484,004.23	$1,230,809.76	
	Other Income									
14	Interest revenues		$ 21,549.00			$ 21,549.00	$ 20,923.09		$ 625.91	
15	Miscellaneous nonoperating revenues		239,609.49	$ 235,867.35		3,742.14	3,473.34		268.80	
16	Nonoperating revenue deductions (Debit)		(156,140.73)		$ 155,977.68	(163.05)		$ 163.05		
17	Total Other Income		$ 105,017.76	$ 235,867.35	$ 155,977.68	$ 25,128.09	$ 24,396.43	$ 163.05	$ 894.71	
18	Gross Income		$1,041,533.24	$ 727,448.22	$ 758,523.76	$1,072,608.76	$ 325,071.57	$ 484,167.28	$1,231,704.47	
	Income Deductions									
	Interest on debt to Colorado Interstate Gas Company,									
19	Bonds		$ 365,790.00	$ 28,260.00	$ 31,220.00	$ 362,830.00			$ 362,830.00	
20	Notes and current account		110,055.68	51,196.48	55,303.97	105,948.14			105,948.14	
21	Other interest charges			45.00		45.00			45.00	
22	Miscellaneous income deductions			515.00		515.00	$ 23,017.74		23,532.74	
23	Total Income Deductions		$ 475,845.68	$ 80,016.48	$ 86,523.97	$ 469,338.14	$ 23,017.74		$ 492,355.88	
24	Net Income for Year Ended December 31, 1938		$ 565,687.61	$ 807,464.70	$ 845,047.71	$ 603,270.62	$ 348,089.31	$ 484,167.28	$ 739,348.59	
	Surplus Account									
	Credits,									
25	Balance January 1, 1938		$4,697,958.65	$7,219,614.48	$7,001,909.03	$2,480,253.20	$3,514,185.50	$5,307,984.87	$4,273,992.57	
26	Balance from income account (above)		565,687.61	807,464.70	845,047.71	603,270.62	348,089.31	484,167.28	739,348.59	
27	Miscellaneous direct credits (net)		66,376.11	77,439.58	12,061.27					
28	Total Credits		[illegible]	[illegible]	$7,859,018.01	$3,083,523.82	$3,862,274.81	$5,792,092.15	$5,013,341.16	
	Debits,									
29	Premium on bonds retired		$ 14,790.00			$ 14,790.00			$ 14,790.00	
30	Miscellaneous direct debits (net)		40,273.32	$ 4,180.04	$ 14,453.36					
31	Total Debits		$ 55,063.32	$ 4,180.04	$ 14,453.36	$ 14,790.00			$ 14,790.00	
32	Balance December 31, 1938		$3,273,961.05	$8,108,696.60	$7,903,471.37	$3,068,733.82	$3,862,274.81	$5,792,092.15	$4,998,551.16	

Exhibit No. 168

3402

Docket G-124

Statement H-3
Sheet 1 of 1

CANADIAN RIVER GAS COMPANY
CONDENSED INCOME AND EARNED SURPLUS ACCOUNT
PER BOOKS, AS RECLASSIFIED AND AS ADJUSTED - YEAR ENDED DECEMBER 31, 1937

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Line No.	Description (1)	Schedule References (2)	Balance Per Books Unadjusted (3)	Reclassifications Debit (4)	Reclassifications Credit (5)	As Reclassified (6)	Adjustments Debit (7)	Adjustments Credit (8)	As Adjusted (9)	Suspended for Further Consideration of the Commission (10)
	Utility Income									
1	Operating Revenues	B 19	$2,283,640.67	$ 15,196.35	$ 38,951.25	$2,307,395.57	$ 29,903.86	$ 323.53	$2,277,815.24	
	Operating Revenue Deductions:									
2	Operating expenses	B 22	$ 942,116.41	$ 416,627.05	$ 698,063.56	$ 660,679.90		$ 103,431.55	$ 557,248.35	$(87,562.61)
3	Depreciation		257,113.39	5,770.08	6,386.37	256,497.10	$ 144,723.45	256,497.10	144,723.45	
4	Depletion		140,661.30	3,669.83		134,351.13	39,199.22	134,351.13	39,199.22	
5	Profit and loss on plant retirements		6,427.09	110,794.80	293.48	17,018.41		17,018.41		
6	Taxes	B 24	104,032.25	101,224.01	38,098.77	166,057.49		2,608.50	165,448.99	63,735.59
7	Total Operating Revenue Deductions		$1,441,250.44	$ 538,175.77	$ 742,752.18	$1,236,504.03	$ 183,922.67	$ 513,906.69	$ 906,625.01	23,826.94
8	Net Operating Revenues		$ 842,390.23	$ 553,302.12	$ 781,703.43	$1,070,891.54	$ 213,826.53	$ 514,230.22	$1,371,195.23	
	Exploration and Development Costs									
9	Delay rentals		$ 21,180.08	$ 6,678.65	$ 11,098.28	$ 16,760.45	$ 3,200.00		$ 19,960.45	
10	Net Utility Income		$ 821,210.15	$ 559,980.77	$ 798,801.71	$1,054,031.09	$ 217,026.53	$ 514,230.22	$1,351,234.78	
	Other Income									
11	Interest revenues		$ 21,917.48			$ 21,917.48	$ 20,734.58		$ 1,182.90	
12	Miscellaneous nonoperating revenues		410,610.21	$ 355,779.12		54,831.09	54,525.49		305.60	
13	Nonoperating revenue deductions (Debit)		(185,096.82)		$ 185,121.42	24.60	24.60			
14	Total Other Income		$ 247,430.87	$ 355,779.12	$ 185,121.42	$ 76,763.17	$ 75,284.67		$ 1,488.50	
15	Gross Income		$1,068,641.02	$ 915,759.89	$ 977,923.13	$1,130,814.26	$ 292,321.20	$ 514,230.22	$1,352,723.28	
	Income Deductions									
	Interest on debt to Colorado Interstate Gas Company:									
16	Bonds		$ 401,370.00	$ 31,220.00	$ 34,190.00	$ 398,400.00			$ 398,400.00	
17	Notes and current account		107,890.34	55,303.97	54,255.00	108,939.22			108,939.22	
18	Miscellaneous income deductions			168.00		168.00	$ 30,085.64		30,253.64	
19	Total Income Deductions		$ 509,260.34	$ 86,691.97	$ 88,445.00	$ 507,507.22	$ 30,085.64		$ 537,592.86	
20	Net Income for Year Ended December 31, 1937		$ 559,390.68	$1,002,451.86	$1,066,368.22	$ 623,307.04	$ 322,406.84	$ 514,230.22	$ 815,130.42	
	Earned Surplus									
	Credits:									
21	Balance January 1, 1937		$1,487,408.21	$6,543,404.44	$5,930,667.58	$1,474,766.16	$3,191,779.66	$4,793,694.65	$3,476,682.15	
22	Balance from income account (above)		559,390.68	1,002,451.86	1,066,368.22	623,307.04	322,406.84	514,230.22	815,140.42	
23	Miscellaneous direct credits (net)		668,985.56	673,858.19	4,873.13					
24	Total Credits		$2,715,778.65	$7,219,614.48	$7,001,908.93	$2,498,073.20	$3,514,185.50	$5,307,924.87	$4,291,812.57	
25	Debit - Premium on bonds retired		$ 17,820.00			$ 17,820.00			$ 17,820.00	
26	Balance December 31, 1937		$2,697,958.65	$7,219,614.48	$7,001,908.93	$2,480,253.20	$3,514,185.50	$5,307,924.87	$4,273,992.57	

Exhibit No. 168

3403
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EXPENSES SUSPENDED FOR FURTHER CONSIDERATION OF THE COMMISSION
FOR THE YEARS 1937, 1938 AND 1939

Income Statement Suspension Reference (1)	Particulars (2)		Year Ended December 31, 1939 (3)	1938 (4)	1937 (5)
A	Natural Gas Production Expenses	(Residuals produced (credit)	$(206,523.88)	$(152,564.91)	$(214,857.54)
		(Residuals operation expenses	88,015.19	76,823.42	82,752.01
			$(118,508.69)	$ (75,741.49)	$(132,105.53)

The above amounts relate Canadian River Gas Company's share of the results from joint operation of Texoma Natural Gas Company's gasoline extraction plant at Fritch, Texas. Analytical details thereof are shown in the following subschedules:

Year	Subschedule
1939	B-20-2
1938	B-21-2
1937	B-22-1

Suspension is made for the reason that the results reported by Texoma Natural Gas Company on the joint operation of its Fritch gasoline extraction plant are subject to the ultimate findings in another proceeding (Docket G-112, Natural Gas Pipeline Company of America and Texoma Natural Gas Company) before the Commission. The findings in the aforementioned case have not yet been made available. Any alterations in the results from operation of the Fritch gasoline plant will in turn affect the amounts as reported to Canadian River Gas Company.

The gasoline plant at Fritch, Texas, is owned by Texoma Natural Gas Company and is operated by that company for the benefit of itself and Canadian River Gas Company under a lease and operating agreement dated October 15, 1931 and as modified by letter dated June 8, 1938, a copy each of which is contained in Appendix 1 to this statement (Statement B-4).

Based upon tentative information re case on Docket G-112 obtained through Chicago regional staff of the Division of Accounts, Examiner in entry No. 182 adjusted the balance per books of Canadian River Gas Company for 1937, 1938 and 1939, giving effect to the substitution of depreciation and return on investment in lieu of the charges provided for in Section 6, paragraph (b) of the original lease and operating agreement dated October 15, 1931, a copy of which is contained in Appendix 1 to this statement. Consideration should, therefore, be given the possibility of any change developed on final disposition of case in Docket G-112. The effect of Examiner's adjustment reduced expenses of joint gasoline operations in each of the three years as follows:

1939	$11,722.31
1938	5,410.35
1937	7,547.78

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Exhibit No. 168 9

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CANADIAN RIVER GAS COMPANY
EXPENSES SUSPENDED FOR FURTHER CONSIDERATION OF THE COMMISSION
FOR THE YEARS 1937, 1938 AND 1939

Income Statement Suspension Reference (1)	Particulars (2)	Year Ended December 31, 1939 (3)	1938 (4)	1937 (5)
C	Management and supervision fees and expenses	$ 8,366.94	$ 8,188.31	$ 7,777.59
	Special services	2,530.98	1,997.35	2,305.27
		$ 10,897.92	$ 10,185.66	$ 10,082.86

The amounts shown represent all charges made by associated companies other than for insurance and certain telephone services on a recognized cost basis, and the legal fees and expenses included in Suspension B above. The nature of the charges appears in the details supporting Examiner's entries providing segregation from the several accounts in which originally included by Respondent, to classifications shown above. A summary of charges by associated companies and reference to Examiner's entries follows:

	1939	1938	1937
Amarillo Oil Company	$10,013.22	$ 9,902.16	$ 9,752.86
Southwestern Development Co.	884.70	283.50	330.00
	$10,897.92	$10,185.66	$10,082.86
Examiner's Entry No.	R-178	R-179	R-180

For each of the three years there is included in management and supervision fees and expenses $7,500.00 charged by Amarillo Oil Company to compensate for services of R. E. Werts et al. It is the Examiner's recommendation that these annual payments be disallowed in the cost of gas operations by reason of Respondent's failure to substantiate satisfactorily the reasonableness and exact nature of the charges.

Mr. P. C. Spencer (Vice President of Canadian River Gas Company), in response to Examiner's request, submitted the following explanation regarding the annual charge of $7,500.00, in a letter dated March 11, 1940:

"This is not a prorated charge. It is a lump sum payment made by Canadian River Gas Company to Amarillo Oil Company for various services rendered to Canadian River by R. E. Werts and other members of Amarillo Oil Company's staff. The amount of the payment was agreed upon by representatives of Canadian River, Amarillo Oil and Colorado Interstate Gas Company in 1933. The amount agreed upon was estimated to cover the actual cost of services rendered and to be rendered. Since 1933 the services rendered have increased substantially, but the lump sum payment has not been changed."

Examiner Luttring visited offices of Amarillo Oil Company and endeavored to obtain further explanations regarding the annual charge of $7,500.00 but without satisfactory result, as indicated from his notes which in part read as follows:

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CANADIAN RIVER GAS COMPANY
EXPENSES SUSPENDED FOR FURTHER CONSIDERATION OF THE COMMISSION
FOR THE YEARS 1937, 1938 AND 1939

Income Statement Suspension Reference (1)	Particulars (2)	Year Ended December 31, 1939 (3)	1938 (4)	1937 (5)
C (Cont'd)				

"Mr. Snyder (General Auditor, Amarillo Oil Company) refused to give us any information other than that covered in the letters of Mr. Spencer and offered to give us no information until permitted to do so by Mr. Spencer."

Examiner Luttring wired Mr. Spencer as to whether Mr. Snyder might furnish names and salaries of individuals and amount of time by character of service performed for Canadian River Gas Company, and received the following answer by wire on May 14, 1940:

(Examiner) "Luttring's wire yesterday $7,500.00 fee includes substantial services performed for Canadian by Moody, Baird, Spencer and their respective office forces therefore Snyder cannot give complete answer the charge is so small in view of the total services rendered it would seem to require little if any substantiation however Luttring wants additional details suggest he cover by writing me further letter of inquiry simplified as much as possible bearing in mind we have not maintained any job or time records please advise further wishes."

Examiner Luttring's notes further show:

"In discussions with Mr. Snyder and from records which we were permitted to examine it was learned that Amarillo Oil Company carries a group of accounts under 'Special Administrative Department'. Mr. Snyder informed us that salaries of Mr. Wertz, Mr. Snyder and other employees who devote their services to the various subsidiaries under the jurisdiction of this special administrative department are charged to the special department as well as expenses of these employees.

"Mr. Snyder stated that the fee of $7,500.00 charged to Canadian River Gas Company was first deducted from the expenses of the Special Department and the balance then prorated to the other subsidiaries participating in the services of those in the Special Department.

"We asked Mr. Snyder the extent to which we could get data representing the expenses related to the fee of $7,500.00 and his reply was that no information could be divulged except on advice of counsel.

"Mr. Snyder does not deny that the books of Amarillo Oil Company contain most of the expenses, ... which relate to the fee of $7,500.00 . . . ."

The remainder of amounts included in this suspension appear to be reasonable and proper charges to gas operating expenses and, in the opinion of the Examiner, should be passed accordingly.

3406

Exhibit No. 168 10

CANADIAN RIVER GAS COMPANY
EXPENSES SUSPENDED FOR FURTHER CONSIDERATION OF THE COMMISSION
FOR THE YEARS 1937, 1938 AND 1939

Income Statement Suspension Reference (1)	Particulars (2)	Year Ended December 31, 1939 (3)	1938 (4)	1937 (5)
D	Items charged to expense claimed as cost of gas plant in report of Ford, Bacon & Davis, Inc., dated April 18, 1940	$ 16,576.40	$ 9,293.47	$ 10,129.23
	Certain general and administrative expenses for the years 1937, 1938 and 1939, now claimed by the Respondent as gas plant capital expenditures, are suspended in order that the expenses so claimed may be directed to the attention of the Commission and its staff. The report of Ford, Bacon & Davis, Inc. covering the claim for restatement of plant has been filed with the Commission by the Respondent.			
E	Rate case expenses	$ 54,800.61		
	Respondent charged to expenses on its books amounts expended incident to rate case pending before the Commission. Examiner's reclassification entry R-139 transfers such expenses under the balance sheet caption "Deferred Debits" as of December 31, 1939, for the purpose of suspending the items for such disposition as the Commission may prescribe. Analytical details of the expenses thus suspended are contained in Schedule A-12 which appears in the exhibit relating to the balance sheet as of December 31, 1939.			
	Total suspensions related to operating expenses	$ (9,551.75)	$ (48,626.36)	$ (67,562.63)
F	Federal income tax	$ 66,403.02	$ 68,434.88	$ 65,738.69
	Income taxes for the years 1937, 1938 and 1939, as adjusted, are suspended for the reason that the income received by the Respondent, and which constituted the basis for assessment of its income taxes, may, as a result of this proceeding, be found to have been in excess of a fair return. The Examiner recommends that expenses chargeable to the ratepayer include, with respect to income taxes, only such an amount as would represent the necessary taxes required to be paid based upon the income which the Commission determines it is proper for the Respondent to earn.			
	Total suspensions related to operating revenue deductions	$ 56,851.27	$ 19,808.52	$ (23,826.94)

Exhibit No. 3[illegible]

cket G-124

Statement B-4
Appendix No. 1
Sheet 1 of 7

CANADIAN RIVER GAS COMPANY
GASOLINE PLANT OPERATING AGREEMENT
DATED OCTOBER 15, 1931, BETWEEN
TEXOMA NATURAL GAS COMPANY
AND CANADIAN RIVER GAS COMPANY

OPY

THIS AGREEMENT, dated as of October 15, 1931, by and between XOMA NATURAL GAS COMPANY, a Delaware corporation, hereinafter referred as "Texoma", and CANADIAN RIVER GAS COMPANY, a Delaware corporation, reinafter referred to as "Canadian River",

WITNESSETH:

WHEREAS the parties hereto as of October 15, 1931, entered to a certain Lease and Operating Agreement wherein Canadian River ased from Texoma an undivided twenty-five percent (25%) interest in certain compressor station at Fritch, Texas, and in a certain pipe ne between Fritch, Texas, and Gray, Oklahoma, owned by Texoma; and

WHEREAS Texoma is the owner of a certain absorption type tural gasoline plant, adjacent to the said compressor station and cated upon the following described land in Hutchinson County, Texas, -wit:

A portion of Section 5, Block Y-2, Tyler Tap RR Survey, containing 80 acres and described by metes and bounds as follows: Beginning at a point 660 feet east and 660 feet north of the southwest corner of said Section 5; thence north parallel with the west line of said Section 1320 feet to a point for corner; thence east parallel with the south line of said Section 2640 feet to a point for corner; thence south 1320 feet to a point for corner; thence west 2640 feet to the place of beginning; and

WHEREAS both parties hereto transport raw natural gas to the id compressor station of Texoma at Fritch, Texas, where said gas is pressed for transportation through the said pipe line of Texoma, d the parties hereto desire that such raw natural gas be subjected treatment for the extraction of natural gasoline at the said gasone plant of Texoma hereinabove described;

NOW THEREFORE, in consideration of the premises and of the tual promises and covenants herein contained, the parties hereby ree as follows:

SECTION 1. The natural gas delivered by the parties to the id compressor station of Texoma at Fritch, Texas, in accordance th the provisions of the said Lease and Operating Agreement between em, shall, after compression as contemplated in said lease and erating agreement, be subjected to a process for the extraction of tural gasoline therefrom in the gasoline extraction plant of Texoma ove described.

SECTION 2. The natural gas so delivered by the parties to e said compressor station shall be raw natural gas as produced from e wells, except that any helium therein contained may first have been xtracted therefrom and that such gas may have been first treated for e removal of sulphur therefrom.

SECTION 3. Texoma shall have full charge, control and author-ty over the operations of said gasoline plant, shall conduct the opera-ions thereof in accordance with the accepted practice in the industry, d shall have the right to manufacture therein gasoline of such grades d such specifications as it may consider necessary or desirable. It all also have the right and authority to dispose of the entire product manufactured at such prices, upon such terms and to such party or rties as it may deem advisable, as though it were the sole owner hereof.

SECTION 4. Texoma agrees to keep and maintain said gasoline ant in a reasonable and proper state of repair, charging the cost hereby incurred to the operation of said plant. In the event it be-mes convenient or necessary from time to time to construct additions r extensions to said plant or to install additional equipment therein, exoma will do so, charging the cost thereof to the investment in said lant.

SECTION 5. Texoma may discontinue the manufacture of gasoline n said plant during such period or periods as it may deem advisable.

SECTION 6. Canadian River shall be charged by Texoma with ertain proportions of the total cost of operation and maintenance of, d interest and retirement charges on, said gasoline plant as follows:

(a) That proportion of the total cost of operating and maintaining the said gasoline plant; of insurance and local, state and federal taxes thereon and on the product thereof (except taxes on net income); of the total costs of marketing and delivering the product thereof; and of all other costs (including a proper part of the unallocated general, administrative and office expense of Texoma) properly appli-cable to the ownership and operation of the said gasoline plant and disposition of the product thereof, which the quantity of natural gas delivered by Canadian River to the said compressor station of Texoma at Fritch, Texas, bears to the total quantity of natural gas delivered thereto, such quantities for the purposes hereof being those determined in accordance with the provisions of the hereinbefore mentioned lease and operating agreement.

(b) Twenty five percent (25%) of the interest and of the sinking fund and/or other retirement charges on all

bonds, notes or other indebtedness of Texoma from time to time outstanding, the proceeds of which have been invested in the said gasoline plant; provided however that in the event the said plant is abandoned on account of obsolescence or otherwise Canadian River shall pay to Texoma twenty five percent (25%) of the unamortized investment of Texoma in the said gasoline plant and Canadian River shall not thereafter be required to pay any additional amounts under this subdivision (b) with respect thereto.

Canadian River shall be credited with that proportion of the amounts received from the sale of gasoline manufactured at said plant, which the theoretical gasoline recovery from the natural gas delivered to the compressor station of Texoma at Fritch, Texas, by Canadian River bears to the total theoretical gasoline recovery from the total natural gas delivered thereto. The theoretical gasoline recovery shall be computed as follows:

The gasoline content of the natural gas delivered to the compressor station of Texoma at Fritch, Texas, by each corporation or person making such deliveries shall be separately tested daily by Texoma by use of the charcoal method and distillation apparatus and/or such other method as may be agreed upon by the parties hereto and/or recommended hereafter by the Natural Gasoline Association of America. Canadian River shall be notified of the time and place of all such tests and shall have the right to observe and check all such tests and may, if it so desires, install its own apparatus for the making of similar tests. Such daily tests by Texoma, and the corresponding daily volumes of natural gas delivered to the compressor station of Texoma, at Fritch, Texas, determined as provided in subparagraph (a) of this Section 6, or as otherwise agreed to by the parties, shall be used to calculate the total theoretical gasoline recovery from the gas so delivered.

SECTION 7. Texoma shall on or before the first day of each February, May, August and November render to Canadian River a general report of the operations of said gasoline plant during the quarter year ending on the last day of December, March, June and September next preceding, respectively, and a statement showing the amount due hereunder from either party to the other with respect to such quarter year, which statement shall show in detail all matters necessary for the computation of all such amounts. The net charge, if any, against Canadian River as shown by any such statement shall be paid by it to Texoma on or before thirty (30) days after the receipt of such statement and the net credit, if any, to Canadian River as shown by any such statement shall be paid by Texoma to Canadian River simultaneously with the presentation of such statement.

SECTION 8. Canadian River shall have free access to the gasoline plant described herein at all reasonable hours for the inspection thereof, and may at reasonable times audit and inspect the books and records of Texoma with relation to the operations of said gasoline plant.

SECTION 9. Canadian River shall warrant generally the title to all gas furnished by it hereunder and its right to extract and dispose of gasoline therefrom, and it will indemnify Texoma and save it harmless from all suits, actions, debts, accounts, damages, costs, losses and expenses arising from or out of any failure of such title or right.

SECTION 10. Nothing herein shall be construed as vesting in Canadian River any title to the gasoline plant hereinabove described.

SECTION 11. All notices to be given hereunder by Canadian River to Texoma shall be given by registered mail or by delivering the same to Texoma at its office at Chicago, Illinois, or at such other office as may hereafter be designated by Texoma for the purpose, and all notices to be given by Texoma to Canadian River shall be given by registered mail or by delivering the same to Canadian River at its office at Amarillo, Texas, or at such other office as may hereafter be designated by Canadian River for the purpose.

SECTION 12. In the event either party shall be rendered unable wholly or in part by force majeure to carry out its obligations under this agreement other than to make payment of amounts due hereunder, it is agreed that on such party giving notice and full particulars of such force majeure in writing or by telegraph to the other as soon as possible after the occurrence of the cause relied on, then the obligations of the party giving such notice so far as they are affected by such force majeure, shall be suspended during the continuance of any inability so caused but for no longer period, and such cause shall, so far as possible, be remedied by such party with all reasonable dispatch.

The term "force majeure" as employed herein shall mean acts of God, strikes, lockouts, or other industrial disturbances, acts of the public enemy, wars, blockades, insurrections, riots, epidemics, landslides, lightning, earthquakes, fires, storms, floods, washouts, arrests and restraints of rulers and peoples, civil disturbances, explosions, breakage or accident to machinery or lines of pipe, the necessity for making repairs and/or alterations in machinery or lines of pipe, freezing of lines of pipe, and any other cause, whether of the kind herein enumerated or otherwise, not within the control of the party claiming suspension and which by the exercise of due diligence such party is unable to overcome.

Exhibit No. 168

ocket G-124

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Statement B-4
Appendix No. 1
Sheet 5 of 7

SECTION 13. This agreement may be assigned by either of e parties hereto without the consent of the other to any person, irm, or corporation acquiring all of the assets of such party, but t may not otherwise be assigned without the consent of the other party ereto. Whenever any person, firm or corporation is referred to erein such reference shall be deemed to include the successors and ssigns of such person, firm or corporation.

SECTION 14. This contract shall be and remain in full force nd effect from the date hereof until the termination of the above escribed Lease and Operating Agreement between the parties of even ate herewith.

IN WITNESS WHEREOF, the parties hereto have caused their ames to be signed hereto and their respective corporate seals to be ereunto affixed and attested by their respective officers thereunto uly authorized as of the date first above written.

TEXOMA NATURAL GAS COMPANY

(Seal)

By H. O. CASTER
President

Attest:
C. C. KELLY
Secretary

CANADIAN RIVER GAS COMPANY

(Seal)

By N. K. MOODY
Vice-President

Attest:
VICTOR A. IOBE
Secretary

Docket G-124

Statement B-4
Appendix No. 1
Sheet 6 of 7

CANADIAN RIVER GAS COMPANY
SUPPLEMENTAL LETTER
DATED JUNE 8, 1938
FROM CANADIAN RIVER GAS COMPANY
TO TEXOMA NATURAL GAS COMPANY

C O P Y

CANADIAN RIVER GAS COMPANY
Colorado Springs, Colorado

June 8, 1938

Mr. S. E. Campbell, Secretary
Texoma Natural Gas Company
20 North Wacker Drive
Chicago, Illinois

Dear Sir:

In connection with the various points raised by Mr. Kice in making his audit of the Fritch Gasoline Operations for the year 1937, we agree to the settlement of these points on the following basis:

1. In connection with the amortization and interest on bonds of Texoma Natural Gas Company, it is agreed that January 1, 1932 be set as the date the funds from the sale of bonds were completely expended and that amortization and interest of the bonds are to be figured from January 1, 1938 on the basis of the ratio of investment applicable to the Gasoline Plant to the total investment shown on the books as of January 1, 1932, less automotive equipment and furniture and fixtures; this percentage being as follows:

Investment applicable to gasoline plant, January 1, 1932	$ 767,621.63
Total Applicable Investment 1-1-32	$25,600,990.28
= .0299840601	

2. Beginning July 1, 1938, separate notes for additions to Gasoline Plant investment less salvage value of retirements from January 1, 1938, will be set up and amortized over the proper periods to Gasoline Expense and that future additions to Gasoline Plant investment less salvage value of retirements will be handled likewise on separate notes.

3. Gasoline Expense is to include only its proportionate share of legal expense directly affecting the Gasoline Plant and such other legal expense as is known to be of an overhead nature; all other legal expense is to be charged directly to the division of the project that it affects.

4. It is agreed that in making the above procedure effective, both the Texoma Natural Gas Company and the Canadian River Gas Company agree to waive claim for an adjustment of differences on the above three items of procedure in connection with the Gasoline Plant Expense.

Yours very truly,

CANADIAN RIVER GAS COMPANY

By N. K. Moody
President

Approved this 20th day of June, 1938
TEXOMA NATURAL GAS COMPANY
By S. E. Campbell
Secretary

Docket G-124

CANADIAN RIVER GAS COMPANY
COMPARATIVE CONDENSED INCOME AND EARNED SURPLUS ACCOUNTS
AS RECLASSIFIED* BY PERIODS, JUNE 1, 1928 TO DECEMBER 31, 1939

Line No.	Description	Twelve Months Ended December Thirty-First								
		1939	1938	1937	1936	1935	1934	1933	1932	1931
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
	Utility Income									
1	Operating Revenues	$2,448,095.27	$2,334,053.93	$2,307,395.57	$2,199,632.59	$2,152,537.20	$2,521,942.80	$2,117,957.98	$2,2[illegible]3,357.17	$2,050,748.08
	Operating Revenue Deductions									
2	Operating expenses	$ 746,555.93	$ 746,473.84	$ 660,679.90	$ 648,280.94	$ 547,231.1[illegible]	$ 549,196.42	$ 447,158.55	$ 545,333.68	$ 484,473.18
3	Depreciation	273,391.04	266,950.01	256,497.10	250,079.92	245,[illegible]8.75	241,579.78	234,706.42	231,282.06	233,848.62
4	Depletion	320,359.14	140,959.72	134,351.13	117,229.10	152,934.82	155,944.63	96,022.33	81,666.61	95,283.23
5	(Profit) and loss on plant retirements	(131.78)	(45,162.46)	17,018.41	1,052.02	77,031.60	(6.84)	1,652.22	24,264.23	3,004.85
6	Taxes	177,162.03	169,073.04	168,057.49	141,674.29	137,647.37	150,302.19	167,525.05	145,690.00	107,370.10
7	Total Operating Revenue Deductions	$1,517,336.36	$1,278,294.15	$1,236,604.03	$1,158,316.27	$1,160,133.67	$1,097,016.18	$ 947,064.57	$1,028,236.58	$ 923,979.98
8	Net Operating Revenues (Loss)	$ 930,758.91	$1,055,759.78	$1,070,791.54	$1,041,316.32	$ 992,403.53	$1,424,926.62	$1,170,893.41	$1,225,120.59	$1,126,768.10
	Exploration and Development Costs									
9	Delay rentals	$ 3,787.33	$ 7,604.81	$ 16,760.45	$ 12,720.81	$ 47,224.39	$ 51,484.90	$ 55,625.47	$ 125,158.81	$ 88,948.33
10	Nonproductive well drilling	29,293.73								61,160.96
11	Abandoned leases	3,232.63	674.30		57,383.45	36.79		96,942.13	6,034.07	
12	Other exploration costs									
13	Total Exploration and Development Costs	$ 36,313.69	$ 8,279.11	$ 16,760.45	$ 70,104.26	$ 47,261.18	$ 51,484.90	$ 152,567.60	$ 131,192.88	$ 150,109.29
14	Net Utility Income (Loss)	$ 894,445.22	$1,047,480.67	$1,054,031.09	$ 971,212.06	$ 945,142.35	$1,373,441.72	$1,018,325.81	$1,093,927.71	$ 976,658.81
	Other Income									
15	Interest revenues	$ 20,920.90	$ 21,549.00	$ 21,917.48	$ 21,472.36	$ 24,127.34	$ 31,661.23	$ 30,788.61	$ 30,882.48	$ 30,330.14
16	Miscellaneous nonoperating revenues	6,327.43	3,742.14	54,831.09	63,728.66	57,537.80	51,140.64	46,103.25	54,834.46	56,209.80
17	Nonoperating revenue deductions (debit)	(725.85)	(163.05)	34.60	(658.76)	(1,097.23)	(1,193.46)	(1,185.69)	(4,878.71)	(1,679.30)
18	Total Other Income	$ 26,522.48	$ 25,128.09	$ 76,783.17	$ 84,542.26	$ 80,567.91	$ 81,608.41	$ 75,706.17	$ 80,838.23	$ 84,860.64
19	Gross Income (Loss)	$ 920,967.70	$1,072,608.76	$1,130,814.26	$1,055,754.32	$1,025,710.26	$1,455,050.13	$1,094,031.98	$1,174,765.94	$1,061,519.45
	Income Deductions									
	Interest on debt to Colo. Interstate Gas Co.									
20	Bonds	$ 327,235.00	$ 362,830.00	$ 398,400.00	$ 434,095.00	$ 469,765.00	$ 505,440.00	$ 587,190.00	$ 579,750.00	$ 562,276.48
21	Notes and current account	104,962.71	105,948.14	[illegible]8,939.22	110,863.36	112,694.78	132,248.32	222,977.93	159,716.98	142,206.84
22	Other interest charges	11,403.39	45.00				14.20	5,459.13	6,842.37	5,635.39
23	Interest charged to construction (credit)									
24	Miscellaneous income deductions	352.20	515.00	168.00						
25	Total Income Deductions	$ 443,953.30	$ 469,338.14	$ 507,507.22	$ 544,958.36	$ 582,459.78	$ 637,702.52	$ 815,627.06	$ 746,309.35	$ 710,118.71
26	Net Income (Loss)	$ 477,014.40	$ 603,270.62	$ 623,307.04	$ 510,795.96	$ 443,250.48	$ 817,347.61	$ 278,404.92	$ 428,456.59	$ 351,400.74
	Earned Surplus									
	Credits									
27	Balance, beginning of year (deficit)	$3,068,733.82	$2,480,253.20	$1,874,766.16	$1,381,820.20	$ 956,419.72	$ 156,892.11	$ (103,662.81)	$ (508,359.40)	$ (835,960.14)
28	Balance from income account (above)	477,014.40	603,270.62	623,307.04	510,795.96	443,250.48	817,347.61	278,404.92	428,456.59	351,400.74
29	Total Credits (Debit)	$3,545,748.22	$3,083,523.82	$2,498,073.20	$1,892,616.16	$1,399,670.20	$ 974,239.72	$ 174,742.11	$ (79,902.81)	$ (484,559.40)
30	Debit - Premium on bonds retired	$ 11,900.00	$ 14,790.00	$ 17,820.00	$ 17,850.00	$ 17,850.00	$ 17,820.00	$ 17,850.00	$ 23,760.00	$ 23,800.00
31	Balance, end of year (deficit)	$3,533,848.22	$3,068,733.82	$2,480,253.20	$1,874,766.16	$1,381,820.20	$ 956,419.72	$ 156,892.11	$ (103,662.81)	$ (508,359.40)

*Per books subject to reclassifications made for the purposes of assigning revenues, expenses and direct surplus debits and credits to the period in which properly accruable, and of grouping all items according to the principal functional divisions outlined in the Uniform System of Accounts.

Exhibit No. 168

19

Statement B-5
Sheet 1 of 1

CANADIAN RIVER GAS COMPANY
COMPARATIVE CONDENSED INCOME AND EARNED SURPLUS ACCOUNTS
AS RECLASSIFIED* BY PERIODS, JUNE 1, 1928 TO DECEMBER 31, 1939

	Twelve Months Ended December Thirty-First											Seven Months Ended Dec. 31,
	1939	1938	1937	1936	1935	1934	1933	1932	1931	1930	1929	1928
	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
	$2,448,095.27	$2,334,053.93	$2,307,395.57	$2,199,632.59	$2,152,537.20	$2,521,942.80	$2,117,957.98	$2,253,357.17	$2,050,748.08	$1,952,092.23	$ 942,124.76	$ 502,470.65
	$ 746,555.93	$ 746,473.84	$ 660,679.90	$ 648,280.94	$ 547,231.17	$ 549,196.42	$ 447,158.55	$ 545,333.68	$ 484,473.18	$ 395,208.47	$ 767,926.44	$ 114,391.32
	273,391.04	266,950.01	256,497.10	250,079.92	245,288.75	241,579.78	234,706.42	231,282.06	233,848.62	342,833.67	348,033.71	173,793.94
	320,359.14	140,959.72	134,351.13	117,229.10	152,934.82	155,944.63	96,022.33	81,666.61	95,283.23	87,247.54	125,130.79	41,960.01
	(131.78)	(45,162.46)	17,018.41	1,052.02	77,031.60	(6.84)	1,652.22	24,264.23	3,004.85	6,657.92	2,836.90	
	177,162.03	169,073.04	168,057.49	141,674.29	137,647.37	150,302.19	167,525.05	145,690.00	107,370.10	54,184.24	14,127.06	6,364.22
	$1,517,336.36	$1,278,294.15	$1,236,604.03	$1,158,316.27	$1,160,133.67	$1,097,016.18	$ 947,064.57	$1,028,236.58	$ 923,979.98	$ 886,131.84	$1,258,054.90	$ 336,510.09
	$ 930,758.91	$1,055,759.78	$1,070,791.54	$1,041,316.32	$ 992,403.53	$1,424,926.62	$1,170,893.41	$1,225,120.59	$1,126,768.10	$1,065,960.39	$ (315,930.14)	$ 165,960.56
	$ 3,787.33	$ 7,604.81	$ 16,760.45	$ 12,720.81	$ 47,224.39	$ 51,484.90	$ 55,625.47	$ 125,158.81	$ 88,948.33	$ 81,348.53	$ 97,257.49	$ 60,450.47
	29,293.73								61,160.96			
	3,232.63	674.30		57,383.45	36.79		96,942.13	6,034.07		6,597.75	5,498.52	
										2,555.91	2,762.72	
	$ 36,313.69	$ 8,279.11	$ 16,760.45	$ 70,104.26	$ 47,261.18	$ 51,484.90	$ 152,567.60	$ 131,192.88	$ 150,109.29	$ 90,502.19	$ 105,518.73	$ 60,450.47
	$ 894,445.22	$1,047,480.67	$1,054,031.09	$ 971,212.06	$ 945,142.35	$1,373,441.72	$1,018,325.81	$1,093,927.71	$ 976,658.81	$ 975,458.20	$ (421,448.87)	$ 105,510.09
	$ 20,920.90	$ 21,549.00	$ 21,917.48	$ 21,472.36	$ 24,127.34	$ 31,661.23	$ 30,788.61	$ 30,882.48	$ 30,330.14	$ 28,384.55	$ 29,482.71	$ 2,981.53
	6,327.43	3,742.14	54,831.09	63,728.66	57,537.80	51,140.64	46,103.25	54,834.46	56,209.80	63,036.42	93,089.86	352.91
	(725.85)	(163.05)	34.60	(658.76)	(1,097.23)	(1,193.46)	(1,185.69)	(4,878.71)	(1,679.30)	(1,183.78)	27.53	(3.15)
	$ 26,522.48	$ 25,128.09	$ 76,783.17	$ 84,542.26	$ 80,567.91	$ 81,608.41	$ 75,706.17	$ 80,838.23	$ 84,860.64	$ 90,237.19	$ 122,600.10	$ 3,331.29
	$ 920,967.70	$1,072,608.76	$1,130,814.26	$1,055,754.32	$1,025,710.26	$1,455,050.13	$1,094,031.98	$1,174,765.94	$1,061,519.45	$1,065,695.39	$ (298,848.77)	$ 108,841.38
Co.												
	$ 327,235.00	$ 362,830.00	$ 398,400.00	$ 434,095.00	$ 469,765.00	$ 505,440.00	$ 587,190.00	$ 579,750.00	$ 562,276.48	$ 647,430.19	$ 552,898.33	$ 263,968.12
	104,962.71	105,948.14	[illegible]8,939.22	110,863.36	112,694.78	132,248.32	222,977.93	159,716.98	142,206.84	104,433.72	207,213.09	36,529.06
	11,403.39	45.00				14.20	5,459.13	6,842.37	5,635.39			
)												(132,696.64)
	352.20	515.00	168.00									8,112.27
	$ 443,953.30	$ 469,338.14	$ 507,507.22	$ 544,958.36	$ 582,459.78	$ 637,702.52	$ 815,627.06	$ 746,309.35	$ 710,118.71	$ 751,863.91	$ 760,111.42	$ 175,912.81
	$ 477,014.40	$ 603,270.62	$ 623,307.04	$ 510,795.96	$ 443,250.48	$ 817,347.61	$ 278,404.92	$ 428,456.59	$ 351,400.74	$ 313,831.48	($1,058,960.19)	$ (67,071.43)
	$3,068,733.82	$2,480,253.20	$1,874,766.16	$1,381,820.20	$ 956,419.72	$ 156,892.11	$ (103,662.81)	$ (508,359.40)	$ (835,960.14)	($1,126,031.62)	$ (67,071.43)	
	477,014.40	603,270.62	623,307.04	510,795.96	443,250.48	817,347.61	278,404.92	428,456.59	351,400.74	313,831.48	(1,058,960.19)	$ (67,071.43)
	$3,545,748.22	$3,083,523.82	$2,498,073.20	$1,892,616.16	$1,399,670.20	$ 974,239.72	$ 174,742.11	$ (79,902.81)	$ (484,559.40)	$ (812,200.14)	($1,126,031.62)	$ (67,071.43)
	$ 11,900.00	$ 14,790.00	$ 17,820.00	$ 17,850.00	$ 17,850.00	$ 17,820.00	$ 17,850.00	$ 23,760.00	$ 23,800.00	$ 23,760.00		
	$3,533,848.22	$3,068,733.82	$2,480,253.20	$1,874,766.16	$1,381,820.20	$ 956,419.72	$ 156,892.11	$ (103,662.81)	$ (508,359.40)	$ (835,960.14)	($1,126,031.62)	$ (67,071.43)

r the purposes of assigning revenues, expenses and direct surplus debits and credits to the period in which properly accruable,
ncipal functional divisions outlined in the Uniform System of Accounts.

Docket G-124

CANADIAN RIVER GAS COMPANY
COMPARATIVE CONDENSED INCOME AND EARNED SURPLUS ACCOUNT,
AS ADJUSTED, BY PERIODS, JUNE 1, 1928 TO DECEMBER 31, 1939

Line No.	Particulars	Twelve Months Ended December 31							
		1939	1938	1937	1936	1935	1934	1933	1932
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
	Utility Income								
1	Operating Revenues	$2,393,386.99	$2,285,794.32	$2,277,815.24	$2,185,378.51	$2,164,006.33	$2,548,559.36	$2,148,915.98	$2,292,939.94
	Operating Revenue Deductions:								
2	Operating expense	$ 665,286.93	$ 673,129.80	$ 557,248.35	$ 558,588.80	$ 451,986.84	$ 461,644.63	$ 379,452.17	$ 472,857.28
3	Depreciation	153,987.13	153,008.23	144,723.45	145,632.19	147,867.57	150,131.45	147,896.12	146,929.13
4	Depletion	44,865.27	36,323.03	39,199.22	35,395.08	26,906.50	23,336.89	17,328.43	17,253.98
5	Taxes	175,141.03	167,241.04	165,448.99	141,674.29	137,647.37	150,302.19	167,525.05	145,690.00
6	Nonrecurring expenses	222.60	5,274.35		6,867.93	14,053.29	13,809.45		
7	Total Operating Revenue Deductions	$1,039,502.96	$1,035,976.45	$ 906,620.01	$ 888,158.29	$ 778,461.57	$ 799,224.61	$ 712,201.77	$ 782,730.39
8	Net Operating Revenues	$1,353,884.03	$1,249,817.87	$1,371,195.23	$1,297,220.22	$1,385,544.76	$1,749,334.75	$1,436,714.21	$1,510,209.55
	Exploration and Development Costs								
9	Delay Rentals	$ 10,401.58	$ 18,333.81	$ 19,960.45	$ 12,720.81	$ 47,232.89	$ 53,525.40	$ 107,652.92	$ 155,679.81
10	Nonproductive well drilling	29,293.73							
11	Abandoned leases	1,878.18	674.30		43,173.67	36.79		81,585.13	5,459.07
12	Other exploration costs								
13	Total Exploration and Development Costs	$ 41,573.49	$ 19,008.11	$ 19,960.45	$ 55,894.48	$ 47,269.68	$ 53,525.40	$ 189,238.05	$ 161,138.88
14	Net Utility Income	$1,312,310.54	$1,230,809.76	$1,351,234.78	$1,241,325.74	$1,338,275.08	$1,695,809.35	$1,247,476.16	$1,349,070.67
	Other Income								
15	Interest revenues	$ 17.88	$ 625.91	$ 1,182.90	$ 927.68	$ 361.16	$ 8,052.77	$ 8,142.21	$ 8,170.32
16	Miscellaneous nonoperating revenues	292.39	268.80	305.60	904.65	818.11	1,006.76	1,043.27	5,070.22
17	Nonoperating revenue deductions (Debit)				(658.76)	(1,097.23)	(1,193.46)	(1,185.69)	(4,878.71)
18	Total Other Income	$ 310.27	$ 894.71	$ 1,488.50	$ 1,173.57	$ 82.04	$ 7,866.07	$ 7,999.79	$ 8,361.83
19	Gross Income	$1,312,620.81	$1,231,704.47	$1,352,723.28	$1,242,499.31	$1,338,357.12	$1,703,675.42	$1,255,475.95	$1,357,432.50
	Income Deductions								
	Interest on debt to Colorado Interstate Gas Company:								
20	Bonds	$ 327,235.00	$ 362,830.00	$ 398,400.00	$ 434,095.00	$ 469,765.00	$ 505,440.00	$ 587,190.00	$ 579,750.00
21	Notes and current account	104,962.71	105,948.14	108,939.22	110,863.36	112,694.78	132,248.32	222,977.93	159,716.98
22	Other interest charges	11,403.39	45.00				14.20	5,459.13	6,842.37
23	Interest charged to construction (Credit)								
24	Miscellaneous income deductions	29,372.17	23,532.74	30,253.64				6,700.63	
25	Total Income Deductions	$ 472,973.27	$ 492,355.88	$ 537,592.86	$ 544,958.36	$ 582,459.78	$ 637,702.52	$ 822,327.69	$ 746,309.35
26	Net Income (Loss)	$ 839,647.54	$ 739,348.59	$ 815,130.42	$ 697,540.95	$ 755,897.34	$1,065,972.90	$ 433,148.26	$ 611,123.15
	Earned Surplus								
	Credits:								
27	Balance, beginning of year (Deficit)	$4,998,551.16	$4,273,992.57	$3,476,682.15	$2,796,991.20	$2,058,943.86	$1,010,790.96	$ 595,492.70	$ 8,129.55
28	Balance from income account (above) (Debit)	839,647.54	739,348.59	815,130.42	697,540.95	755,897.34	1,065,972.90	433,148.26	611,123.15
29	Total Credits (Debit)	$5,838,198.70	$5,013,341.16	$4,291,812.57	$3,494,532.15	$2,814,841.20	$2,076,763.86	$1,028,640.96	$ 619,252.70
30	Debit - Premium on bonds retired	$ 11,900.00	$ 14,790.00	$ 17,820.00	$ 17,850.00	$ 17,850.00	$ 17,820.00	$ 17,850.00	$ 23,760.00
31	Balance, end of year (Deficit)	$5,826,298.70	$4,998,551.16	$4,273,992.57	$3,476,682.15	$2,796,991.20	$2,058,943.86	$1,010,790.96	$ 595,492.70

Exhibit No. 168

Statement B-6
Sheet 1 of 1

20

CANADIAN RIVER GAS COMPANY
COMPARATIVE CONDENSED INCOME AND EARNED SURPLUS ACCOUNT,
AS ADJUSTED, BY PERIODS, JUNE 1, 1928 TO DECEMBER 31, 1939

Twelve Months Ended December 31											Seven Months Ended December 31
1939	1938	1937	1936	1935	1934	1933	1932	1931	1930	1929	1928
(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
$2,393,386.99	$2,285,794.32	$2,277,815.24	$2,185,378.51	$2,164,006.33	$2,548,559.36	$2,148,915.98	$2,292,939.94	$2,073,687.19	$1,952,092.23	$ 942,124.76	$ 414,351.17
$ 665,286.93	$ 673,129.80	$ 557,248.35	$ 558,588.80	$ 451,986.84	$ 461,644.63	$ 379,452.17	$ 472,857.28	$ 410,578.98	$ 310,320.03	$ 196,964.52	$ 105,038.50
153,987.13	153,008.23	144,723.45	145,632.19	147,867.57	150,131.45	147,896.12	146,929.13	144,877.76	139,358.26	139,348.16	65,278.93
44,865.27	36,323.03	39,199.22	35,395.08	26,906.50	23,336.89	17,328.43	17,253.98	15,698.16	14,803.66	9,015.41	3,045.35
175,141.03	167,241.04	165,448.99	141,674.29	137,647.37	150,302.19	167,525.05	145,690.00	107,370.10	54,184.24	14,127.06	6,364.22
222.60	6,274.35		6,867.93	14,053.29	13,809.45						
$1,039,502.96	$1,035,976.45	$ 906,620.01	$ 888,158.29	$ 778,461.57	$ 799,224.61	$ 712,201.77	$ 782,730.39	$ 678,525.00	$ 518,666.19	$ 359,455.15	$ 179,727.00
$1,353,884.03	$1,249,817.87	$1,371,195.23	$1,297,220.22	$1,385,544.76	$1,749,334.75	$1,436,714.21	$1,510,209.55	$1,395,162.19	$1,433,426.04	$ 582,669.61	$ 234,624.17
$ 10,401.58	$ 18,333.81	$ 19,960.45	$ 12,720.81	$ 47,232.89	$ 53,525.40	$ 107,652.92	$ 155,679.81	$ 140,880.04	$ 87,917.13	$ 95,317.49	$ 60,450.47
29,293.73								61,160.96			
1,878.18	674.30		43,173.67	36.79		81,585.13	5,459.07		3,313.45	1,943.52	
									16.29	1,260.22	
$ 41,573.49	$ 19,008.11	$ 19,960.45	$ 55,894.48	$ 47,269.68	$ 53,525.40	$ 189,238.05	$ 161,138.88	$ 202,041.00	$ 91,246.87	$ 98,521.25	$ 60,450.47
$1,312,310.54	$1,230,809.76	$1,351,234.78	$1,241,325.74	$1,338,275.08	$1,695,809.35	$1,247,476.16	$1,349,070.67	$1,193,121.19	$1,342,179.17	$ 484,148.38	$ 174,173.70
$ 17.88	$ 625.91	$ 1,182.90	$ 927.68	$ 361.16	$ 8,052.77	$ 8,142.21	$ 8,170.32	$ 7,694.60	$ 7,385.85	$ 8,921.81	$ 497.59
292.39	268.80	305.60	904.65	818.11	1,006.76	1,043.27	5,070.22	5,063.63	3,433.92	12,570.44	352.91
			(658.76)	(1,097.23)	(1,193.46)	(1,185.69)	(4,878.71)	(1,679.30)	(1,183.78)	27.53	(3.15)
$ 310.27	$ 894.71	$ 1,488.50	$ 1,173.57	$ 82.04	$ 7,866.07	$ 7,999.79	$ 8,361.83	$ 11,078.93	$ 9,635.99	$ 21,519.78	$ 847.35
$1,312,620.81	$1,231,704.47	$1,352,723.28	$1,242,499.31	$1,338,357.12	$1,703,675.42	$1,255,475.95	$1,357,432.50	$1,204,200.12	$1,351,815.16	$ 505,668.16	$ 175,021.05
$ 327,235.00	$ 362,830.00	$ 398,400.00	$ 434,095.00	$ 469,765.00	$ 505,440.00	$ 587,190.00	$ 579,750.00	$ 562,276.48	$ 647,430.19	$ 552,898.35	$ 263,968.12
104,962.71	105,948.14	108,939.22	110,863.36	112,694.78	132,248.32	222,977.93	159,716.98	142,206.84	104,433.72	207,213.09	36,529.06
11,403.39	45.00				14.20	5,459.13	6,842.37	5,635.39			
											(132,696.64)
29,372.17	23,532.74	30,253.64				6,700.63		690.42		782,082.67	8,347.27
$ 472,973.27	$ 492,355.88	$ 537,592.86	$ 544,958.36	$ 582,459.78	$ 637,702.52	$ 822,327.69	$ 746,309.35	$ 710,809.13	$ 751,863.91	$1,542,194.09	$ 176,147.81
$ 839,647.54	$ 739,348.59	$ 815,130.42	$ 697,540.95	$ 755,897.34	$1,065,972.90	$ 433,148.26	$ 611,123.15	$ 493,390.99	$ 599,951.25	$(1,036,525.93)	$ (1,126.76)
$4,998,551.16	$4,273,992.57	$3,476,682.15	$2,796,991.20	$2,058,943.86	$1,010,790.96	$ 595,492.70	$ 8,129.55	$ (461,461.44)	$(1,037,652.69)	$ (1,126.76)	
839,647.54	739,348.59	815,130.42	697,540.95	755,897.34	1,065,972.90	433,148.26	611,123.15	493,390.99	599,951.25	(1,036,525.93)	$ (1,126.76)
$5,838,198.70	$5,013,341.16	$4,291,812.57	$3,494,532.15	$2,814,841.20	$2,076,763.86	$1,028,640.96	$ 619,252.70	$ 31,929.55	$ (437,701.44)	$(1,037,652.69)	$ (1,126.76)
$ 11,900.00	$ 14,790.00	$ 17,820.00	$ 17,850.00	$ 17,850.00	$ 17,820.00	$ 17,850.00	$ 23,760.00	$ 23,800.00	$ 23,760.00		
$5,826,298.70	$4,998,551.16	$4,273,992.57	$3,476,682.15	$2,796,991.20	$2,058,943.86	$1,010,790.96	$ 595,492.70	$ 8,129.55	$ (461,461.44)	$(1,037,652.69)	$ (1,126.76)

Docket G-124

CANADIAN RIVER GAS COMPANY
SUMMARY OF EXAMINER'S ADJUSTMENT ENTRIES APPLIED TO INCOME ACCOUNT
YEAR ENDED DECEMBER 31, 1939

Entry No. (1)	Particulars (2)	Operating Revenues (3)	Operating Revenue Deductions: Operating Expenses (4)	Depreciation (5)	Depletion (6)	Profit and Loss on Plant Retirements (7)	Taxes (8)	Non-recurring Expenses (9)
101	To credit production expenses with net proceeds realized by Amarillo Oil Company from gasoline produced by Respondent		$(15,056.24)					
102	To adjust royalties received from J. M. Huber Petroleum Company	$(256.69)						
110	To adjust production expenses for amortization and retirements earned on Bivens gasoline plant		(5,778.35)					
111	To adjust production expenses for interest on investment in Bivens gasoline plant		(20,903.02)					
112	To adjust production expenses for allowances made to Colorado Interstate Gas Company for B.T.U. loss	28,153.07	(28,153.07)					
117	To adjust miscellaneous income deductions for trustee's fees		(220.42)					
118	To segregate nonrecurring expenses		(222.60)					$222.60
120	To adjust shop expense for unallocated balance at end of year.		725.85					
127	To adjust charges for Federal capital stock tax						$(2,021.00)	
133	To restate billings to Amarillo Oil Company for gas delivered to Panhandle Pipe Line Company	26,811.90						
170	To adjust materials and supplies account in connection with physical inventory adjustments		(56.21) 117.37					
182	To adjust for substitution of depreciation and return on investment in Texoma Natural Gas Company joint gasoline operations in place of retirement and interest on bonds and notes		(11,722.31)					
201	To remove delay rentals on leaseholds from gas plant investment.							
216	To adjust gas plant with appreciation of abandoned leases							
404	To reverse depletion accrual				$(320,359.14)			
405	To provide annual depletion on operated acreage				18,526.22			
412	To remove plant retirements from income					$131.78		
406	To provide annual depletion of gas well intangible costs				26,339.05			
407	To reverse depreciation accrual			$(273,391.04)				
408	To provide annual depreciation based on service lives			153,987.13				
	Total Debits	$ 54,964.97	$ 843.22	$ 153,987.13	$ 44,865.27	$131.78		$222.60
	Total Credits	(256.69)	(82,112.22)	(273,391.04)	$(320,359.14)		$(2,021.00)	

Exhibit No. 168

Schedule B-13
Sheet 1 of 1

CANADIAN RIVER GAS COMPANY
SUMMARY OF EXAMINER'S ADJUSTMENT ENTRIES APPLIED TO INCOME ACCOUNT
YEAR ENDED DECEMBER 31, 1939

	Operating Revenue Deductions						Exploration and Development Cost		Other Income			Income Deductions
Operating Revenues (3)	Operating Expenses (4)	Depreciation (5)	Depletion (6)	Profit and Loss on Plant Retirements (7)	Taxes (8)	Non-recurring Expenses (9)	Delay Rentals (10)	Abandoned Leases (11)	Interest Revenues (12)	Miscellaneous Nonoperating Revenues (13)	Nonoperating Revenue Deductions (14)	Miscellaneous Income Deductions (15)
	$(15,056.24)											$15,056.24
$(256.69)										$ 256.69		
	(5,778.35)									5,778.35		
	(20,903.02)								$20,903.02			
28,153.07	(28,153.07)											
	(220.42)											220.42
	(222.60)					$222.60						
	725.85										$(725.85)	
					$(2,021.00)							2,021.00
26,811.90												
	((56.21)											
	(117.37											
	(11,722.31)											11,722.31
							$6,614.25	$ (400.00)				
								(954.45)				
			$(320,359.14)									
			18,526.22	$131.78								
			26,339.05									
		$(273,391.04)										
		153,987.13										
$ 54,964.97	$ 843.22	$ 153,987.13	$ 44,865.27	$131.78		$222.60	$6,614.25		$20,903.02	$6,035.04		$29,019.97
(256.69)	(82,112.22)	(273,391.04)	$(320,359.14)		$(2,021.00)			$(1,354.45)			$(725.85)	

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Schedule B-14
Sheet 1 of 1?

CANADIAN RIVER GAS COMPANY
SUMMARY OF EXAMINER'S ADJUSTMENT ENTRIES APPLIED TO INCOME ACCOUNT
YEAR ENDED DECEMBER 31, 1938

Entry No. (1)	Particulars (2)	Operating Revenues (3)	Operating Revenue Deductions: Operating Expenses (4)	Depreciation (5)	Depletion (6)	Profit and Loss on Plant Retirements (7)	Taxes (8)	Non-recurring Expenses (9)	Exploration and Development Cost Delay Rentals (10)	Other Income: Interest Revenues (11)	Miscellaneous Non-operating Revenues (12)	Non-operating Revenue Deductions (13)	Income Deductions Miscellaneous Income Deductions (14)
101	To reflect revenue realized by Amarillo Oil Company from gasoline produced by Respondent		($14,607.55)										$14,607.53
102	To adjust royalties received from J. M. Huber Petroleum Company	$ (184.65)									$ 184.65		
110	To adjust credit for amortization and retirements earned on Bivins gasoline plant investment		(3,288.69)								3,288.69		
111	To adjust credits for interest on Bivins gasoline plant investment		(20,923.09)							$20,923.09			
112	To adjust for allowances made to Colorado Interstate Gas Co. for B.t.u. loss	22,368.23	(22,368.23)										
117	To adjust miscellaneous income deductions for trustees' fees		((275.00) ((892.86)										1,167.86
118	To segregate nonrecurring expenses in connection with consolidation of leases		(6,274.35)					$6,274.35					
120	To adjust shop expense for unallocated balance at end of year		163.05									($163.05)	
127	To adjust charges for Federal capital stock tax						($1,832.00)						1,832.00
133	To restate billing to Amarillo Oil Company for gas delivered to Panhandle Pipeline Co.	26,076.03											
170	To adjust materials and supplies account in connection with physical inventory adjustments		((37.75) (570.76										
182	To adjust for substitution of depreciation and return of investment in Texoma Natural Gas Co. joint gasoline operation in place of retirement and interest on bonds and notes		(5,410.35)										5,410.35
201	To remove delay rentals on leaseholds from gas plant investment								$10,729.00				
402	To reverse retirements charged to depletion on Vo. M-54, 1938					$ 5,725.24							
403	To restate abandoned lease cost from depletion to income (Sneed)					37,950.32							
404	To reverse depletion accrued				($140,959.72)								
405	To provide annual depletion on operated acreage				13,909.62								
412	To remove plant retirements from income					1,486.90							
406	To provide annual depletion of gas well intangible costs				22,813.41								
407	To reverse depreciation accrued			($266,950.01)									
408	To provide annual depreciation based on service lives			153,008.23									
	Total Debits	$48,444.26	$ 733.81	$153,008.23	$ 36,324.03	$45,162.46		$6,274.35	$10,729.00	$20,923.09	$3,473.34		$23,017.74
	Total Credits	(184.65)	(74,077.85)	(266,950.01)	(140,959.72)		($1,832.00)					($163.05)	

CANADIAN RIVER GAS COMPANY
SUMMARY OF EXAMINER'S ADJUSTMENT ENTRIES APPLIED TO INCOME ACCOUNT
YEAR ENDED DECEMBER 31, 1937

ry No. (1)	Particulars (2)	Operating Revenues (3)	Operating Revenue Deductions: Operating Expenses (4)	Operating Revenue Deductions: Depreciation (5)	Operating Revenue Deductions: Depletion (6)	Operating Revenue Deductions: Profit and Loss on Plant Retirements (7)	Operating Revenue Deductions: Taxes (8)	Exploration and Development Cost: Delay Rentals (9)	Other Income: Interest Revenues (10)	Other Income: Miscellaneous Nonoperating Revenues (11)	Other Income: Nonoperating Revenue Deductions (12)	Income Deductions: Miscellaneous Income Deductions (13)
01	To reflect income realized by Amarillo Oil Company from gasoline produced by Respondent		$ (18,992.02)									$18,992.02
02	To adjust royalties received from J. M. Huber Petroleum Company	$ (325.53)								$ 325.53		
10	To adjust credit for amortization and retirements earned on Bivens gasoline plant investment		(26,617.62)							26,617.62		
11	To adjust credits for interest on Bivens gasoline plant investment		(20,754.58)						$20,754.58			
12	To adjust for allowances made to Colorado Interstate Gas Company for B.T.U. loss		(27,584.34)							27,584.34		
17	To adjust miscellaneous income deductions for trustee's fees		(957.34)									957.34
20	To adjust shop expense for unallocated balance at end of year		(34.60)								$34.60	
27	To adjust charges for Federal capital stock tax						$(2,608.50)					2,608.50
28	To restate billing to Amarillo Oil Company for gas delivered to Panhandle Pipeline Company	29,903.86										
70	To adjust materials and supplies account in connection with physical inventory adjustments		((420.73) ((562.54)									
	To adjust for substitution of depreciation and return on investment in Texoma Natural Gas Co. joint gasoline operation in place of retirement and interest on bonds and notes		(7,547.78)									7,547.78
01	To remove delay rentals on leaseholds from gas plant investment							$3,200.00				
04	To reverse depletion accrual				$(154,351.13)							
05	To provide annual depletion on operated acreage				14,682.23							
06	To provide annual depletion of gas well intangible costs				24,516.99							
07	To reverse depreciation accrual			$(256,497.10)								
08	To provide annual depreciation on service lives			144,723.45								
12	To remove plant retirements from income					$(17,018.41)						
	Total Debits	$29,903.86		$ 144,723.45	$ 39,199.22			$3,200.00	$20,754.58	$54,525.49	$34.60	$30,085.64
	Total Credits	(325.53)	$(203,451.55)	(256,497.10)	(154,351.13)	$(17,018.41)	$(2,608.50)					

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Schedule B-16

Sheet 2 of 67

CANADIAN RIVER GAS COMPANY
EXAMINER'S RECLASSIFICATION AND ADJUSTMENT ENTRIES
RELATING TO THE INCOME ACCOUNT

Particulars	Year	Debit	Credit
No. 101			
Miscellaneous Income Deductions	1939	$15,056.24	
do.	1938	14,607.53	
do.	1937	18,992.02	
Natural Gas Production Expenses -			
Residuals Produced - Credit	1939		$15,056.24
do.	1938		14,607.53
do.	1937		18,992.02

To credit Respondent's production expenses with proceeds (less royalties paid) realized by Amarillo Oil Company during 1937, 1938 and 1939 from gasoline extracted from natural gas produced by the Respondent, as disclosed by an examination of the books and records of Amarillo Oil Company pertaining to its natural gas gasoline operations. This entry has the effect of reducing Respondent's production expenses for the purpose of the proceeding under Docket G-124 with the realization from the residual recovered by Amarillo Oil Company, an associated company having same control as Respondent.

Particulars	Year	Debit	Credit
No. 102			
Other Income - Miscellaneous Nonoperating			
Revenues	1939	$ 256.69	
do.	1938	184.65	
do.	1937	323.53	
Miscellaneous Gas Revenues	1939		$ 256.69
do.	1938		184.65
do.	1937		323.53

To transfer from nonoperating income to gas revenues, royalties received from J. M. Huber Petroleum Company in the years 1939, 1938 and 1937, arising from sale of Respondent's lease No. 94 in 1931.

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CANADIAN RIVER GAS COMPANY
EXAMINER'S RECLASSIFICATION AND ADJUSTMENT ENTRIES RELATING TO THE INCOME ACCOUNT

Particulars	Year	Debit	Credit
No. 110			
Miscellaneous Nonoperating Revenues (Amortization and Retirements Earned on Gasoline Investment)	1939	$ 5,778.35	
do.	1938	3,288.69	
do.	1937	26,617.62	
do.	1936	34,180.10	
do.	1935	39,549.71	
do.	1934	39,289.59	
do.	1933	37,682.60	
do.	1932	37,792.08	
do.	1931	37,664.86	
do.	1930	34,936.32	
do.	1929	38,480.87	
Natural Gas Production Expenses - Residuals Operation Expenses	1939		$ 5,778.35
do.	1938		3,288.69
do.	1937		26,617.62
do.	1936		34,180.10
do.	1935		39,549.71
do.	1934		39,289.59
do.	1933		37,682.60
do.	1932		37,792.08
do.	1931		37,664.86
do.	1930		34,936.32
do.	1929		38,480.87

To adjust production expenses (residuals operation) for amounts included therein and credited on Respondent's books to miscellaneous nonoperating revenue representing amortization and retirements earned on investment in Bivins gasoline plant. The Respondent's entries, if not reversed, would result in overstatement of production expenses (residuals operation) since annual depreciation as revised by the Commission's accountants includes provision for amortization of Respondent's investment in gasoline plant.

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CANADIAN RIVER GAS COMPANY
EXAMINER'S RECLASSIFICATION AND ADJUSTMENT ENTRIES
RELATING TO THE INCOME ACCOUNT

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Particulars	Year	Debit	Credit
No. 111			
Other Income - Interest Revenues	1939	$20,903.02	
do.	1938	20,923.09	
do.	1937	20,734.58	
do.	1936	20,544.68	
do.	1935	23,766.18	
do.	1934	23,608.46	
do.	1933	22,646.40	
do.	1932	22,712.16	
do.	1931	22,635.54	
do.	1930	20,998.70	
do.	1929	20,560.90	
do.	1928	2,483.94	
Natural Gas Production Expenses - Residuals Operation Expenses	1939		$20,903.02
do.	1938		20,923.09
do.	1937		20,734.58
do.	1936		20,544.68
do.	1935		23,766.18
do.	1934		23,608.46
do.	1933		22,646.40
do.	1932		22,712.16
do.	1931		22,635.54
do.	1930		20,998.70
do.	1929		20,560.90
do.	1928		2,483.94

To adjust production expenses (residuals operation) for amounts included therein and credited on Respondent's books to interest revenues, representing interest on investment in Bivins gasoline plant. The Respondent's entries, if not reversed, would result in overstatement of production expenses (residuals operation). Interest on investment is chargeable to the return or gross profit from operations and is not a component of operating expense.

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CANADIAN RIVER GAS COMPANY
EXAMINER'S RECLASSIFICATION AND ADJUSTMENT ENTRIES
RELATING TO THE INCOME ACCOUNT

Particulars	Year	Debit	Credit
No. 112			
Operating Revenues - Sales to Other Associated Companies	1939	$28,153.07	
do.	1938	22,368.23	
do.	1928	6,869.48	
Miscellaneous Nonoperating Revenues	1937	27,584.34	
do.	1936	28,643.91	
do.	1935	17,169.98	
do.	1934	10,844.29	
do.	1933	7,377.38	
do.	1932	11,972.16	
do.	1931	13,481.31	
do.	1930	24,666.18	
do.	1929	42,038.55	
Natural Gas Production Expenses Residuals Operation Expenses	1939		$28,153.07
do	1938		22,368.23
do.	1937		27,584.34
do.	1936		28,643.91
do.	1935		17,169.98
do.	1934		10,844.29
do.	1933		7,377.38
do.	1932		11,972.16
do.	1931		13,481.31
do.	1930		24,666.18
do.	1929		42,038.55
do.	1928		6,869.48

To adjust production expenses (residuals operation) for amounts included therein by Respondent representing allowances made to Colorado Interstate Gas Company to compensate it for loss of B.t.u. content in natural gas delivered to certain of its industrial customers, attributed to the extraction of gasoline from natural gas by Respondent at its Bivins gasoline plant. These allowances represent only portions of price reduction made by Colorado Interstate Gas Company to certain industrial customers as a result of the B.t.u. content of gas deliveries being less than that specified in the respective contracts of sale. The portion of the price reduction passed to the Respondent by Colorado Interstate Gas Company is here regarded as an adjustment of Respondent's revenues which may not properly be included as a charge to operating expenses.

CANADIAN RIVER GAS COMPANY
EXAMINER'S RECLASSIFICATION AND ADJUSTMENT ENTRIES
RELATING TO THE INCOME ACCOUNT

Particulars	Year	Debit	Credit
No. 117			
Miscellaneous Income Deductions	1939	$ 220.42	
do.	1938	1,167.86	
do.	1937	937.34	
Administrative and General Expenses - Other Expenses (Account 457)	1939		$ 220.42
do.	1938		892.86
do.	1937		937.34
Natural Gas Production Expenses - Other Supplies and Expenses (Account 358)	1938		275.00

To transfer to miscellaneous income deductions the Respondent's expenses for trustees' (The Chase National Bank of New York City - Trustee) fees, etc., under its bond indenture during the years 1937, 1938 and 1939. Since the original expenses in connection with the issuance of bonds are ultimately charged to income deductions, through amortization of debt discount and expense, current bond expenses are likewise regarded as financial expense and therefore reclassified as income deductions. Detail of payments by years, follows:

Year	Respondent's Voucher	Respondent's Account Number 358	457
1939	F-1-11		$220.42
1938	F-1-11		$217.81
	F-22		234.15
	G-1-32	$275.00	
	M-1-28		217.81
	M-22		223.09
		$275.00	$892.86
1937	F-1		$217.81
	F-22		256.43
	M-1		217.81
	M-22		245.29
			$937.34

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CANADIAN RIVER GAS COMPANY
EXAMINER'S RECLASSIFICATION AND ADJUSTMENT ENTRIES
RELATING TO THE INCOME ACCOUNT

Particulars	Year	Debit	Credit
No. 118			
Nonrecurring Expenses	1939	$ 222.60	
do.	1938	6,274.35	
Natural Gas Production Expenses - Other Supplies and Expenses (Account 358)	1939		$ 222.60
do.	1938		6,274.35

To segregate as nonrecurring the expenses incurred during 1938 and 1939 in connection with consolidation of various leases. The purpose of these expenditures was such that repetition of similar expenses in future years is improbable. Details follow:

Year	Respondent's Voucher	Description	Amount
1938	K-39	Closing W.O. 470 - Making Torsion Balance	$5,143.88
1938	L-35	survey of area adjacent to supposed	390.00
		fault line on Bivins and Masterson leases	$5,533.88
		Payment to Southwestern Development Co. - Traveling expenses, New York to Chicago, July 13 to 16, 1938, re proposal to consolidate gas leases of Canadian River Gas Company:	
1938	G-3-11	(P. C. Spencer	$ 102.20
		(Geo. Baird	224.30
			$ 326.50
		Payment to Adkins, Pipkin, Madden & Keffer -	
1938	G-3-12	(Expenses of Mr. Keffer to Chicago, July (12 to 17, incl.	$ 58.00
		(Fee for four days' time on trip to Chicago	200.00
			$ 258.00
		Payment to Amarillo Oil Company -	
1939	D-3-41	Portion of R. E. Wertz trip, Amarillo to Washington-New York and return, April 27 to May 5, 1939, incl.	$ 222.60
1938	G-3-26	Expenses of R. E. Wertz on trip, Amarillo to Chicago and return, July 12 to 17, 1938	155.97
			$ 378.57
			$6,496.95

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CANADIAN RIVER GAS COMPANY
EXAMINER'S RECLASSIFICATION AND ADJUSTMENT ENTRIES
RELATING TO THE INCOME ACCOUNT

Particulars	Year	Debit	Credit
No. R-125			
Operating Revenue Deductions - Taxes	1939	$66,403.02	
do.	1938	68,434.88	
do.	1937	63,735.69	
do.	1936	45,417.49	
do.	1935	53,655.05	
do.	1934	69,941.37	
do.	1933	66,178.61	
do.	1932	27,139.07	
do.	1931	17,909.56	
Income Deductions - Other Interest Charges	1934	14.20	
do.	1933	5,459.13	
do.	1932	6,842.37	
do.	1931	5,635.39	
Administrative and General Expenses - Profit and Loss Suspense	1939		$125,441.31
do.	1938		61,283.07
do.	1937		135,304.85
do.	1936		31,282.11
do.	1935		36,920.17
do.	1934		37,878.68
Taxes Accrued - Federal Income Taxes	12/31/39		68,855.64

To reclassify from profit and loss suspense Federal income taxes and interest on such taxes which were paid delinquently, and also to relate these expenditures in the years to which applicable. Also to provide for Federal income taxes accruable as of December 31, 1939.

CANADIAN RIVER GAS COMPANY
EXAMINER'S RECLASSIFICATION AND ADJUSTMENT ENTRIES
RELATING TO THE INCOME ACCOUNT

Particulars	Year	Debit	Credit
No. 127			
Income Deductions - Miscellaneous Income Deductions	1939	$2,021.00	
do.	1938	1,832.00	
do.	1937	2,608.50	
Operating Revenue Deductions - Tax s	1939		$2,021.00
do.	1938		1,832.00
do.	1937		2,608.50

To transfer to miscellaneous income deductions the portion of Federal capital stock tax for 1937, 1938 and 1939 not properly includible in operating revenue deductions, computed as follows:

	1939	1938	1937	1936
Capital stock account per Respondent's books	$ 1.00	$ 1.00	$ 1.00	$ 1.00
Surplus, per Respondent's books at end of each year	3,609,943.09	3,273,961.05	2,697,958.65	1,487,402.91
Total adjusted base for Federal capital stock purposes	$3,609,944.09	$3,273,962.05	$2,697,959.65	$1,487,403.91
Tax, $1 per each full $1,000 for year ending June 30th of following year	$3,609.00	$3,273.00	$2,697.00	$1,487.00
Less one-half of tax applicable to next succeeding year	1,804.50	1,636.50	1,348.50	743.50
Tax applicable to current year	$1,804.50	$1,636.50	$1,348.50	$ 743.50
Add one-half of tax indicated for preceding year applicable to current year	1,636.50	1,348.50	743.50	
Total tax applicable to current year	$3,441.00	$2,985.00	$2,092.00	
Tax per Respondent's books (as reclassified by Examiner's Entry No. R-126)	5,462.00	4,817.00	4,700.50	
Excess transferred to miscellaneous income deductions	$2,021.00	$1,832.00	$2,608.50	

CANADIAN RIVER GAS COMPANY
EXAMINER'S RECLASSIFICATION AND ADJUSTMENT ENTRIES
RELATING TO THE INCOME ACCOUNT

Particulars	Year	Debit	Credit
No. 127 (Cont'd)			

Since excess profits taxes are not a necessary cost of conducting gas operations, capital stock taxes paid to avoid payment of excess profits taxes are likewise not properly includible in the cost of gas operations.

No. R-128

Particulars	Year	Debit	Credit
Natural Gas Production Expenses - Other Supplies and Expenses	1936	$ 262.97	
Natural Gas Production Expenses - Maintenance:			
Gas Well Equipment	1936	3,010.95	
Field Line Equipment	1936	483.81	
Other Production and Gathering Equipment	1936	193.63	
Measuring Station Equipment	1936	193.64	
Natural Gas Transmission Expenses - Maintenance of Transmission Line Equipment	1936	2,182.40	
Administrative and General Expenses - Maintenance of Telephone System	1936	2,505.08	
Natural Gas Production Expenses - Other Supplies and Expenses	1937		$ 262.97
Natural Gas Production Expenses - Maintenance:			
Gas Well Equipment	1937		3,010.95
Field Line Equipment	1937		483.81
Other Production and Gathering Equipment	1937		193.63
Measuring Station Equipment	1937		193.64
Natural Gas Transmission Expenses - Maintenance of Transmission Line Equipment	1937		2,182.40
Administrative and General Expenses - Maintenance of Telephone System	1937		2,505.08

To reclassify from 1937 to 1936 operating expenses, accumulated expenditures on work orders as of December 31, 1936 which were charged on Respondent's books to 1937 operating expenses.

Docket G-124

CANADIAN RIVER GAS COMPANY
EXAMINER'S RECLASSIFICATION AND ADJUSTMENT ENTRIES
RELATING TO THE INCOME ACCOUNT

Particulars	Year	Debit	Credit
No. R-129			
Natural Gas Production Expenses - Maintenance:			
Gas Well Equipment	1937	$2,942.45	
Field Line Equipment	1937	208.90	
Natural Gas Transmission Expenses - Bivins Camp Expenses	1937	1,224.55	
Administrative and General Expenses - Maintenance of Telephone System	1937	807.30	
Natural Gas Production Expenses - Maintenance:			
Gas Well Equipment	1938		$2,942.45
Field Line Equipment	1938		208.90
Natural Gas Transmission Expenses - Bivins Camp Expenses	1938		1,224.55
Administrative and General Expenses - Maintenance of Telephone System	1938		807.30

To reclassify from 1938 to 1937 operating expenses, accumulated expenditures on work orders as of December 31, 1937 which were charged on Respondent's books to 1938 operating expenses.

Particulars	Year	Debit	Credit
No. R-130			
Natural Gas Production Expenses - Maintenance of Other Production and Gathering Equipment	1938	$181.57	
Natural Gas Production Expenses - Maintenance of Other Production and Gathering Equipment	1939		$181.57

To reclassify from 1939 to 1938 operating expenses, accumulated expenditures on work orders as of December 31, 1938 which were charged on Respondent's books to 1939 operating expenses.

Docket G-124

CANADIAN RIVER GAS COMPANY
EXAMINER'S RECLASSIFICATION AND ADJUSTMENT ENTRIES
RELATING TO THE INCOME ACCOUNT

Particulars	Year	Debit	Credit
No. R-131			
Income Deductions - Miscellaneous Income Deductions	1939	$352.20	
do.	1938	515.00	
do.	1937	168.00	
Administrative and General Expenses:			
Other General Expenses (Account 457)	1939		$ 1.00
Other Nonoperating Expenses (Account 562)	1939		351.20
Natural Gas Transmission Expenses - Other Supplies and Expenses (Account 381)	1938		3.75
Natural Gas Production Expenses - Residual Operation Expenses (Account 561-11)	1938		3.75
Administrative and General Expenses - Other Nonoperating Expenses (Account 562)	1938		507.50
do.	1937		168.00

To reclassify as income deductions, amounts which Respondent designates as donations cleared through an account entitled "Donations," to various operating expense accounts.

Particulars	Year	Debit	Credit
No. R-132			
Administrative and General Expenses - Other General Expenses (Account 457)	1939	$219.16	
do.	1938	54.15	
do.	1937	132.56	
Administrative and General Expenses - Other Nonoperating Expenses (Account 562)	1939		$219.16
do.	1938		54.15
do.	1937		132.56

To reclassify administrative and general expenses by transferring balance of amounts classified thereunder by Respondent as other nonoperating expenses, considered to be properly includible in operating revenue deductions.

Exhibit No. 168

Docket G-124

Schedule B-16
Sheet 27 of 67

CANADIAN RIVER GAS COMPANY
EXAMINER'S RECLASSIFICATION AND ADJUSTMENT ENTRIES
RELATING TO THE INCOME ACCOUNT

Particulars	Year	Debit	Credit
No. 133			
Deferred Debits - Other (Amarillo Oil Company)	12/31/39	$34,519.70	
Operating Revenues - Sales to Other Associated Gas Utilities	1939	26,811.90	
do.	1938	26,076.03	
do.	1937	29,903.86	
do.	1936	14,254.08	
Operating Revenues - Sales to Other Associated Gas Utilities	1935		$11,469.13
do.	1934		26,616.56
do.	1933		30,958.00
do.	1932		39,582.77
do.	1931		22,939.11

To restate billings to Amarillo Oil Company for the period from July 1, 1931 to December 31, 1939 for gas delivered to Panhandle Pipe Line Company at the ascertained rate provided in sales contract with Amarillo Oil Company dated January 3, 1928. In accordance with a supplemental agreement dated July 1, 1931 to the aforementioned sales contract, a billing rate of 4½ cents per MCF was used during the foregoing period. From July 1, 1931 through 1935, the ascertained rate was in excess of 4½ cents per MCF and subsequent thereto the ascertained rate has been less than 4½ cents per MCF. The amount of $34,519.70 transferred to deferred debits by this entry represents the portion of the excess of the ascertained rate from July 1, 1931 through 1935 over 4½ cents per MCF which had not been offset as of December 31, 1939 by the excess of 4½ cents per MCF over the ascertained rate subsequent to 1935. The supplemental agreement dated July 1, 1931 provides that the ascertained rate per MCF will be used instead of 4½ cents per MCF when the deficiency of $34,519.70 as of December 31, 1939 has been entirely offset.

Docket G-124

CANADIAN RIVER GAS COMPANY
EXAMINER'S RECLASSIFICATION AND ADJUSTMENT ENTRIES
RELATING TO THE INCOME ACCOUNT

Particulars	Year	Debit	Credit
No. R-134			
Operating Revenue Deductions - Taxes	1939	$543.81	
do.	1938	532.46	
do.	1937	188.41	
Operating Revenue Deductions - Taxes	1939		$532.46
do.	1938		188.41
Taxes Accrued - Federal Old Age Benefits Tax	12/31/39		456.49
Payables to Associated Companies (Colorado Interstate Gas Company)	12/31/39		87.32

To reclassify Federal old age benefit tax within the year to which applicable and to provide accrual for such tax not paid as of December 31, 1939.

Particulars	Year	Debit	Credit
No. R-135			
Operating Revenue Deductions - Taxes	1939	$770.48	
do.	1938	751.90	
do.	1937	494.47	
do.	1936	279.12	
Operating Revenue Deductions - Taxes	1939		$751.90
do.	1938		494.47
do.	1937		279.12
Payables to Associated Companies (Colorado Interstate Gas Company)	12/31/39		118.66
Taxes Accrued - Federal Unemployment Tax	12/31/39		651.82

To reclassify Federal unemployment tax within the year to which applicable and to provide accrual for such tax not paid as of December 31, 1939.

Exhibit No. 168

Docket G-124

Schedule B-16

CANADIAN RIVER GAS COMPANY
EXAMINER'S RECLASSIFICATION AND ADJUSTMENT ENTRIES
RELATING TO THE INCOME ACCOUNT

Particulars	Year	Debit	Credit
No. R-136			
Operating Revenue Deductions - Taxes	1939	$ 7,476.43	
do.	1938	26,876.17	
do.	1937	28,808.02	
do.	1936	31,066.74	
do.	1935	29,200.36	
do.	1934	28,576.93	
do.	1933	26,841.61	
Natural Gas Transmission Expenses - Chicago Project	1933	91.85	
Taxes Accrued - Ad Valorem Taxes	12/31/39		$ 7,476.43
Operating Revenue Deductions - Taxes	1939		26,876.17
do.	1938		28,808.02
do.	1937		31,066.74
do.	1936		29,200.36
do.	1935		28,576.93
do.	1934		26,841.61
Natural Gas Transmission Expenses - Chicago Project	1934		91.85

To reclassify State ad valorem taxes within the year to which applicable and to provide accrual for such tax not paid as of December 31, 1939.

Particulars	Year	Debit	Credit
No. R-137			
Operating Revenue Deductions - Taxes	1939	$ 713.30	
do.	1938	704.64	
do.	1937	389.27	
do.	1936	1,851.91	
Payables to Associated Companies (Colorado Interstate Gas Company)	12/31/39		$ 306.41
Taxes Accrued - State Unemployment Taxes	12/31/39		406.89
Operating Revenue Deductions - Taxes	1939		704.64
do.	1938		389.27
do	1937		1,851.91

To reclassify State unemployment taxes within the year to which applicable and to provide accrual for such taxes not paid as of December 31, 1939.

CANADIAN RIVER GAS COMPANY

EXAMINER'S RECLASSIFICATION AND ADJUSTMENT ENTRIES

RELATING TO THE INCOME ACCOUNT

Particulars	Year	Debit	Credit
No. R-138			
Administrative and General Expenses - General Office Clerks Salaries (Account 428)	1939	$245.67	
Administrative and General Expenses - Other Expenses (Account 457)	1939		$245.67

To redistribute between 1939 administrative and general expenses, amounts transferred to Respondent by Colorado Interstate Gas Company covering regular time of regular employees carried on the latter's private payroll charged to other expenses through Canadian River Gas Company work order No. 516 (all work and material in connection with evaluation report of Ford, Bacon & Davis, Inc.).

Particulars	Year	Debit	Credit
No. R-139			
Other Deferred Debits - Rate Case Expense	12/31/39	$54,600.61	
Administrative and General Expenses:			
General Office Clerks Salaries (Account 428)	1939		$ 434.35
General Law Expenses (Account 433)	1939		1,005.76
Rent (Account 434)	1939		221.67
Other General Office Expenses (Account 435)	1939		16,516.78
Other Expenses (Account 457)	1939		36,422.05

To reclassify, pending decision of the Commission as to proper disposition thereof, certain administrative and general expenses incurred by Respondent to December 31, 1939 as a result of the rate investigation by the Commission. Analytical details of the above amounts are presented in Schedule A-12 which supports the deferred amount appearing in the balance sheet as of December 31, 1939. Reclassification as a deferred debit has the effect of placing the charges in suspense pending the Commission's decision regarding ultimate disposition thereof.

Docket G-124

Schedule B-16
Sheet 31 of 67

CANADIAN RIVER GAS COMPANY
EXAMINER'S RECLASSIFICATION AND ADJUSTMENT ENTRIES
RELATING TO THE INCOME ACCOUNT

64

Particulars	Year	Debit	Credit
No. R-140			
Exploration and Development Costs - Nonproductive Well Drilling	1939	$29,293.73	
Administrative and General Expenses - Profit and Loss Suspense	1939		$29,293.73

To reclassify from administrative and general expenses - profit and loss suspense, the accumulated 1939 expenditures for drilling Bivins A-26 well designated on the records as a "dry hole."

Particulars	Year	Debit	Credit
No. R-141			
Operating Revenue Deductions - Depreciation	1935	$ 5,893.97	
do.	1934	5,893.97	
do.	1933	5,893.97	
do.	1932	5,893.97	
do.	1931	5,893.97	
Surplus - Miscellaneous Direct Debits (Net)	1938		$19,255.51
Operating Revenue Deductions - Depreciation	1937		6,386.37
do.	1936		3,827.97

To reclassify direct surplus charges covering adjustment of provision for depreciation applicable to overhead and salvage included in plant investment as shown by Respondent's journal voucher M-58 (1938).

Docket G-124

Schedule B-16
Sheet 32 of 67

CANADIAN RIVER GAS COMPANY
EXAMINER'S RECLASSIFICATION AND ADJUSTMENT ENTRIES
RELATING TO THE INCOME ACCOUNT

Particulars	Year	Debit	Credit
No. R-142			
Operating Revenue Deductions - Depreciation	1937	$ 5,770.08	
do.	1936	6,098.60	
do.	1935	7,264.72	
do.	1934	6,064.45	
Surplus - Miscellaneous Direct Debits (Net)	1938		$25,197.85

To reclassify direct surplus charges covering adjustment of provision for depreciation applicable to miscellaneous utility plant investment as shown by Respondent's journal voucher M-57 (1938).

Particulars	Year	Debit	Credit
No. R-143			
Surplus - Miscellaneous Direct Debits (Net)	1938	$ 4,180.04	
Operating Revenue Deductions - Profit and Loss on Plant Retirements	1937		$ 133.88
do.	1936		1,210.28
do.	1935		1,826.16
do.	1934		1,009.72

To reclassify net profit realized on utility plant retired credited on books to surplus (Respondent's journal voucher M-57, 1938).

Particulars	Year	Debit	Credit
No. R-144			
Exploration and Development Costs - Abandoned Leases	1936	$ 2,657.33	
Surplus - Miscellaneous Direct Credits (Net)	1938		$ 2,657.33

To reclassify 1938 direct surplus charge representing correction of accounting for loss on abandonment of two Sneed leases in 1936 (Respondent's journal voucher M-54, 1938).

Lease No. 107-C	$ 82.94
Lease No. 108-D	2,574.39
	$2,657.33

Docket G-124

Schedule B-16
Sheet 33 of 67

CANADIAN RIVER GAS COMPANY
EXAMINER'S RECLASSIFICATION AND ADJUSTMENT ENTRIES
RELATING TO THE INCOME ACCOUNT

66

Particulars	Year	Debit	Credit
No. R-145			
Operating Revenue Deductions - Depletion	1937	$ 3,689.83	
do.	1936	3,362.10	
do.	1935	2,239.98	
do.	1934	112.03	
Surplus - Miscellaneous Direct Credits (Net)	1938		$ 9,403.94

To reclassify 1938 direct surplus charge covering revision of depletion provisions applicable to prior years as shown by Respondent's journal voucher M-54 (1938).

Particulars	Year	Debit	Credit
No. R-146			
Surplus - Miscellaneous Direct Credits (Net)	1937	$660,832.62	
Profit and Loss on Plant Retirements	1935	25,757.94	
do.	1932	19,448.58	
do.	1931	959.60	
Operating Revenue Deductions - Depreciation	1935		$130,163.28
do.	1934		137,279.13
do.	1933		138,858.73
do.	1932		144,569.63
do.	1931		141,790.23
do.	1930		1,536.00
Profit and Loss on Plant Retirements	1934		11,220.08
do.	1933		1,581.66

To reclassify 1937 direct surplus credits covering revision of depreciation provisions applicable to prior years as shown by Respondent's journal voucher J-44 (1937).

Docket G-124

CANADIAN RIVER GAS COMPANY
EXAMINER'S RECLASSIFICATION AND ADJUSTMENT ENTRIES
RELATING TO THE INCOME ACCOUNT

67

Particulars	Year	Debit	Credit
No. R-147			
Operating Revenue Deductions - Depletion	1930	$1,536.00	
Surplus - Miscellaneous Direct Credits (Net)	1937		$1,536.00

To reclassify 1937 direct surplus charge covering amount of depletion provision on Dunaway lease No. 114 for the year 1930 as shown by Respondent's journal voucher J-44 (1937).

Particulars	Year	Debit	Credit
No. R-148			
Exploration and Development Costs - Abandoned Leases	1933	$3,337.13	
Surplus - Miscellaneous Direct Credits (Net)	1937		$3,337.13

To reclassify 1937 direct surplus charge representing correction of accounting for loss on abandonment of leases in 1933 (Respondent's journal voucher J-44, 1937). Leases and amounts applicable thereto:

Lease No.	Lease Name	Amount
69-A	Killgore	$ 19.57
92	Johnson	286.09
114	Dunaway	3,031.47
		$3,337.13

3457

Exhibit No. 168

155

CANADIAN RIVER GAS COMPANY
TAXES
FOR THE YEARS 1937, 1938 AND 1939

Line No.	Description (1)	Per Books (2)	Reclassifications Debit (3)	Reclassifications Credit (4)	As Reclassified (5)	Adjustments Debit (6)	Adjustments Credit (7)	As Adjusted (8)	Suspended for Further Consideration of the Commission (9)	Income Statement Suspension Reference (10)
	Year 1939									
1	Federal income		(R-125) $ 66,403.02		$ 66,403.02			$ 66,403.02	$66,403.02	F
2	Ad valorem (Texas and New Mexico)	$ 76,483.54	((R-136) 7,476.43	(R-136) $26,876.17	59,834.53			59,834.53		
3			((R-177) 2,750.73							
4	Texas gross receipts	34,220.09			34,220.09			34,220.09		
5	Federal and state unemployment	6,517.04	((R-135) 770.48	((R-135) 751.90	7,697.01			7,697.01		
6			((R-137) 713.30	((R-137) 704.64						
7			((R-177) 1,152.73							
8	Federal old age benefit	2,044.11	((R-134) 543.81	(R-134) 532.46	2,436.05			2,436.05		
9			((R-177) 380.59							
10	Federal capital stock	5,134.00	(R-126) 5,462.00	(R-126) 5,134.00	5,462.00		(127) $2,021.00	3,441.00		
11	Franchise (Delaware and Texas)	971.50			971.50			971.50		
12	Federal tax on gasoline produced or recovered from natural gas		(R-177) 137.83		137.83			137.83		
13	Total for year 1939	$125,370.28	$ 85,790.92	$33,999.17	$177,162.03		$2,021.00	$175,141.03	$66,403.02	
	Year 1938									
14	Federal income		(R-125) $ 68,434.88		$ 68,434.88			$ 68,434.88	$68,434.88	F
15	Ad valorem (texas and New Mexico)	$ 53,739.90	((R-136) 26,876.17	(R-136) $28,808.02	53,356.49			53,356.49		
16			((R-177) 1,548.44							
17	Texas gross receipts	31,323.26			31,323.26			31,323.26		
18	Federal and state unemployment	5,904.93	((R-135) 751.90	(R-135) 494.47	7,508.60			7,508.60		
19			((R-137) 704.64	(R-137) 389.27						
20			((R-177) 1,030.87							
21	Federal old age benefit	1,725.15	((R-134) 532.46	(R-134) 188.41	2,369.17			2,369.17		
22			((R-177) 299.97							
23	Federal capital stock	4,545.00	(R-126) 4,817.00	(R-126) 4,545.00	4,817.00		(127) $1,832.00	2,985.00		
24	Franchise (Delaware and Texas)	1,109.50			1,109.50			1,109.50		
25	Federal tax on transportation of natural gasoline		(R-177) 127.47		127.47			127.47		
26	Federal tax and gasoline produced or recovered from natural gas		(R-177) 26.67		26.67			26.67		
27	Total for year 1938	$ 98,347.74	$105,150.47	$34,425.17	$169,073.04		$1,832.00	$167,241.04	$68,434.88	
	Year 1937									
28	Federal income		(R-125) $ 63,735.69		$ 63,735.69			$ 63,735.69	$63,735.69	F
29	Ad valorem (Texas and New Mexico)	$ 57,307.34	((R-136) $ 28,808.02	(R-136) $31,066.74	56,559.66			56,559.66		
30			((R-177) 1,511.04							
31	Texas gross receipts	34,579.10			34,579.10			34,579.10		

Docket G-124

Schedule [illegible]
Sheet 2 of 2

CANADIAN RIVER GAS COMPANY
TAXES
FOR THE YEARS 1937, 1938 AND 1939

Line No.	Description (1)	Per books (2)	Reclassifications Debit (3)		Reclassifications Credit (4)		As Reclassified (5)	Adjustments Debit (6)	Adjustments Credit (7)	As Adjusted (8)	Suspended for Further Consideration of the Commission (9)	Income, Statement Suspension Reference (10)
32	Federal and state unemployment	$ 5,285.68	((R-135)	$ 494.47	((R-135)	$ 279.12	$ 4,923.99			$ 4,923.99		
33			((R-137)	389.27	((R-137)	1,851.91						
34			((R-177)	885.60								
35	Federal old age benefit	1,840.53	((R-134)	188.41			2,345.36			2,345.36		
36			((R-177)	316.42								
37	Federal capital stock	4,901.00	(R-126)	4,700.50	(R-126)	4,901.00	4,700.50		(127) $2,608.50	2,092.00		
38	Franchise (Delaware and Texas)	1,018.60					1,018.60			1,018.60		
39	Federal tax on transportation of natural gasoline		(R-177)	138.51			138.51			138.51		
40	Federal tax on gasoline produced or recovered from natural gas		(R-177)	56.08			56.08			56.08		
41	Total for year 1937	$104,932.25		$101,224.01		$38,098.77	$168,057.49		$2,608.50	$165,448.99	$63,735.69	

3459
Exhibit No. 168

Exhibit 168 covers generally the years 1928 to 1939, inclusive, but is complete only as to the years 1937, 1938 and 1939. The exhibit, therefore, and the testimony with reference thereto will be abstracted only in so far as for the years 1937, 1938 and 1939 it makes deductions from operating expenses or additions to operating income or suspends items for special consideration of the Commission.

The following is a summary of the evidence applicable to the remaining 13 items of adjustment above referred to.

Credit to Income Account of Canadian of Net Gasoline Earnings Realized by Amarillo Oil Company From Gasoline Extracted from Natural Gas Purchased by Amarillo Oil Company From Canadian.

This item appears as Entry No. 101, sheet 35, Exhibit 168, and involves the following amounts which Mr. McKinstry credits to the Canadian River income account:

1937.	$18,992.02
1938.	14,607.53
1939.	15,056.24

The explanation made by Mr. McKinstry on this Entry No. 101 is as follows:

"To credit Respondent's production expenses with proceeds (less royalties paid) realized by Amarillo Oil Company during 1937, 1938 and 1939 from gasoline extracted from natural gas produced by the Respondent, as disclosed by an examination of the books and records of Amarillo Oil Company pertaining to its natural gas gasoline operations. This entry has the effect of reducing Respondent's production expenses for the purpose of the proceeding under Docket G-124 with the realization from the residual recovered by Amarillo Oil Company, an associated company having same control as Respondent."

He then stated he was familiar with the contract of January 3, 1928, under which Amarillo Oil Company purchases natural gas from Canadian; that the point of delivery under that contract is at the wellhead; that there is nothing in the contract which gives Canadian the right to extract gasoline from the natural gas so delivered to Amarillo Oil Company.

Exhibit 168 covers generally the years 1928 to 1939, inclusive, but is complete only as to the years 1937, 1938 and 1939. The exhibit, therefore, and the testimony with reference thereto will be abstracted only in so far as for the years 1937, 1938 and 1939 it makes deductions from operating expenses or additions to operating income or suspends items for special consideration of the Commission.

The following is a summary of the evidence applicable to the remaining 13 items of adjustment above referred to.

Credit to Income Account of Canadian of Net Gasoline Earnings Realized by Amarillo Oil Company From Gasoline Extracted from Natural Gas Purchased by Amarillo Oil Company From Canadian.

This item appears as Entry No. 101, sheet 35, Exhibit 168, and involves the following amounts which Mr. McKinstry credits to the Canadian River income account:

1937,	$18,992.02
1938,	14,607.53
1939,	15,056.24

The explanation made by Mr. McKinstry on this Entry No. 101 is as follows:

> "To credit Respondent's production expenses with proceeds (less royalties paid) realized by Amarillo Oil Company during 1937, 1938 and 1939 from gasoline extracted from natural gas produced by the Respondent, as disclosed by an examination of the books and records of Amarillo Oil Company pertaining to its natural gas gasoline operations. This entry has the effect of reducing Respondent's production expenses for the purpose of the proceeding under Docket G-124 with the realization from the residual recovered by Amarillo Oil Company, an associated company having same control as Respondent."

He then stated he was familiar with the contract of January 3, 1928, under which Amarillo Oil Company purchases natural gas from Canadian; that the point of delivery under that contract is at the wellhead; that there is nothing in the contract which gives Canadian the right to extract gasoline from the natural gas so delivered to Amarillo Oil Company

at the well, and there is nothing in the contract which provides that Canadian shall be entitled to receive any part of the revenues derived from the extraction of gasoline from that natural gas after it is delivered to Amarillo Oil Company at the well; that the natural gasoline is extracted from this gas at the gasoline plant of the Cannon Gasoline Company, a short distance north of Amarillo, Texas, on the pipe line of the Amarillo Oil Company; that the Amarillo Oil Company does not itself extract the gasoline but has a contract with the Cannon Gasoline Company for the extraction, which contract Mr. McKinstry has not seen. Mr. McKinstry stated he did not deem it necessary for him to see that contract for the purposes of his study, and that the specific figures set forth by Mr. McKinstry in his exhibit were obtained by Mr. Luttring. Mr. McKinstry stated that he himself conceived the idea of crediting these amounts to the income account of Canadian. He was asked how this idea grew in his mind (Vol. XLVII, p. 6470), and answered that he observed that in the case of gas sent over the Denver line the gasoline was extracted at Bivins and the net result of that operation went into the accounts of Canadian, and in the case of gas going over the Chicago line the gasoline was extracted at Fritch by the Texoma Natural Gas Company, which company accounted to Canadian for the extraction, and that this left the gas sent over the Amarillo line without any accounting for the natural gasoline contained in the natural gas. Mr. McKinstry was then asked if he concluded that was wrong, and answered that he concluded the natural gasoline was a thing inherent to the natural gas. (Vol. XLVII, p. 6470.) Mr. McKinstry stated there was nothing in the contract which would give him the right to treat this natural gas income as income of Canadian as he has done in his exhibit, and to do that he had to that extent ignored the contract. (Vol. XLVII, pp. 6471, et seq.) He then stated that the only reason upon which he based this entry was that he considered that natural gasoline was an inherent property or element in the natural gas which was produced by Canadian.

Mr. McKinstry further stated that in making this Entry No. 101 he had made no allowance for any income tax paid by Amarillo Oil Company on this revenue, and that this

entry should state that these figures are before federal income tax, if any, was paid.

MR. MCKINSTRY testified: (Vol. XLVII, pp. 6460-6476.)

Q. Now, turning to the exhibit itself, Statements B1, B2 and B3, appearing on Pages 1 to 3, inclusive, they contain a summary of the effect of what you have done in this exhibit as to the years 1937, 1938 and 1939, is that correct?

A. That is correct.

Q. And speaking only of those years, everything that we get from other ports of the exhibit tie back into these particular statements which I have enumerated?

A. Yes.

Q. And those are the three years which you were instructed to include for the purpose of making your rather detailed or more exhaustive audit of this income account? You have testified to that, have you not?

A. Yes.

Q. Turn to Statement B1, Page 1, Column 3. You have a heading there which is entitled "Balance Per Books Unadjusted." Are those the book figures as set up by accounts on the books and records of the company?

A. Well, the groupings as indicated under Column 1 are the descriptions as generally provided under the Uniform System of Accounts. It was necessary to make certain combinations of the company's book balances to arrive at the figures shown in Column 3. However, the balances as used are without any adjustment. They are those that appear on the company's books.

Q. Maybe I can shorten it up this way: I know what you have done but I think the record should show what would be necessary in order to tie the figures into the books of the company shown in Column 3, Statement B1. Will you put in just a brief description with the actual book figures by accounts?

A. Well, the exact detail would be—

Q. I don't want you to give the exact details. Just give a general description of what would be necessary.

A. I think, as stated before, we have taken the company's book balances and made groupings of those balances to combine them under the groupings as provided

under the Uniform System of Accounts as nearly as was practicable.

Q. You would have to have some reconciliation with the figures you show in Column 3 in order to tie into the books, is that not correct?

A. That is correct.

Q. And that reconciliation you have in your working papers?

A. That is true.

Q. Which you have made available to us?

A. That is true.

Q. And the classification of accounts as you have them under the heading of "Description," is not the company's grouping or classification?

A. No.

Q. That is your own description and in providing that you attempted to follow as far as you could the code?

A. That is correct.

Q. You do not mean to say by that that the company's groupings or classifications are wrong?

A. No.

Q. You are merely attempting to conform as closely as you can to the code?

A. That is correct.

Q. One other question before we start on specific entries. Are you familiar with the contract dated January 3, 1928 between Canadian River Gas Company and Colorado Interstate Gas Company covering the purchase and sale of natural gas?

A. I have some conversance with it from an accounting standpoint only.

Q. Have you read the contract?

A. Yes, I have.

Q. You would have to have some familiarity with it in order to have completed this exhibit, isn't that correct?

A. Not as an absolute requirement, no.

Q. Well, let's not get crosswise. You mean you didn't care what the contract provided as far as your study was concerned?

A. I didn't express myself in that regard.

Q. Are you expressing yourself now in that regard?

A. I am expressing it wholly from an accounting stand-

point with the determination of rates as the objective of that accounting.

Q. Well, I am trying to follow you, Mr. McKinstry, and I am trying to see if I can come out at the right point. From the standpoint of the study of the audit you were going to make, the contract which I have just mentioned was relatively unimportant?

A. Well, I hardly feel from the objective that we were working to that the contract is necessarily a requisite in our determination.

Q. Well, we will come back to the contract later.

Now turn to Page 34—

A. Is that Page 34, Mr. Spencer?

Q. Yes. Have you your working papers here, Mr. McKinstry?

A. I have.

Q. As I understand your Entry No. R-100, it is a reclassification item?

A. Yes, sir.

Q. Wherever you have the letter "R" preceding the numeral, it indicates a reclassification rather than an adjustment?

A. That is right.

Q. And this particular Entry R-100, Page 34, simply records gas used in operation and charged for at a fixed price as an inter-department sale in accordance with the requirements of the code?

A. Yes. When you refer to the code you mean the Uniform System of Accounts?

Q. Whenever I say "code" here, let's assume I am speaking of the Uniform System of Accounts promulgated by the Federal Power Commission unless I speak of some other system of account.

Mr. Lange: You have reference to the code for natural gas companies? There is another Uniform System of Accounts.

Mr. Spencer: Yes, that is right. There is no use of getting a long name in the record every time.

Mr. Lange: That is right.

By Mr. Spencer.

Q. This entry makes no difference in the ultimate result in our net income?

A. No, the net is not changed.

Q. Now turn to your Entry No. 101, Page 35. This is an adjustment entry. Now, as I understand your entry here you propose that the net gasoline earnings realized by Amarillo Oil Company from gasoline extracted from natural gas purchased by the Amarillo Oil Company from Canadian River Gas Company shall be credited, at least for the purpose of this study, to the income account of Canadian River Gas Company?

A. That is correct, it is only for the purpose of this study.

Q. In other words, you don't contemplate any book adjustments?

A. No.

Q. And you don't think Amarillo Oil Company would hand over the money?

A. I wouldn't conjecture on that point.

Q. All right. There is a number of these entries and I am not going to have much cross examination about some of them, but there are a few of them I want to inquire about at some length and this is one of them.

A. Surely.

Q. Amarillo Oil Company purchases natural gas from Canadian River Gas Company pursuant to a contract?

A. Yes, it does.

Q. Do you know the date of that contract?

A. I believe I do.

Q. It is January 3, 1928?

A. That corresponds with my understanding.

Q. Have you read the contract?

A. I have from an accounting standpoint.

Q. Do you consider yourself familiar with the information in it for the purpose of answering questions on cross examination regarding the entries you made here?

A. Yes, I do.

Q. All right, where are the sales of gas made under that contract? Where is the delivery point?

A. I believe at the well, the well heads.

Q. That is correct. Now, is there anything in the con-

tract which gives Canadian River Gas Company the right to extract gasoline from the natural gas so delivered to Amarillo Oil Company at the well?

A. According to my reading of it, I believe not.

Q. Is there anything in that contract which says that Canadian River Gas Company shall be entitled to receive any part of the revenues derived from the extraction of gasoline from that natural gas after it is delivered to Amarillo Oil Company at the well?

A. Not according to my reading of that contract.

Q. Where is the natural gasoline extracted from this gas?

A. I understand it is a short distance north of Amarillo, Texas on the pipe line of Amarillo Oil Company.

Q. At whose gasoline plant?

A. The Cannon Gasoline Company.

Q. Then, we are agreed, are we not, Amarillo Oil Company does not extract any gasoline from the natural gas which it purchases from Canadian River Gas Company, is that correct?

A. It does not itself do so, but it does have some—

Q. We will come to that in a minute.

A. All right.

Q. Under what arrangement does Cannon Gasoline Company extract the gasoline from this particular gas?

A. Are you referring to whether a contract exists?

Q. Yes.

A. I understand that a contract does exist.

Q. Did you see the contract?

A. No, I did not.

Q. Do you think it was necessary to see the contract for the purposes of making the determinations which you made here in Entry No. 101?

A. Well, I might say that these—

Q. No, answer the question and then explain it.

The Trial Examiner: He can answer that question.

The Witness: Would you restate the question?

Mr. Spencer: I am not trying to stop you. I would like to have you answer the question and then make any explanations you want to.

The Witness: Will you please restate the question?

(The question referred to was read by the reporter, as set forth above.)

The Witness: Under the circumstances, no.

By Mr. Spencer:

Q. Now, you can add any explanation you want to to that if you desire to do so.

A. This information was obtained by Mr. Luttring in his examination of the records of Amarillo Oil Company.

Q. Do you mean the figures as to revenues derived by Amarillo Oil Company during these years of this particular transaction?

A. These specific figures were obtained by him.

Q. You made no examination of the books and records of Amarillo Oil Company?

A. No, I did not.

Q. These figures were given to you by Mr. Luttring?

A. They were.

Q. And you accepted the figures?

A. I did.

Q. Now, when he handed you the figures, what did he say? Did he just give you these figures and have you think it over and come to the conclusion this entry should be made, or what did happen?

A. Well, that would be a mechanical feature.

Q. I realize giving you the figures would be merely a mechanical feature but I am trying to find out after he gave you the figures how you happened to reach the conclusions you have here. You needed something more than the figures in order to make an entry of this character.

A. I think the idea was conceived prior to the procurement of the figures.

Q. All right, now, we are coming to it. Now, who conceived the idea?

A. I would say that I did.

Q. Well, what was the idea that you conceived? How did the thing grow in your mind?

A. Well, observing that gas sent over the Denver line, the gasoline was extracted at Bivins and the net result of that operation going into the accounts of the Canadian River Gas Company, the gas going over the Chicago line, the gasoline was extracted from it at Fritch by the Texoma

Natural Gas Company who accounted to Canadian River Gas Company for that extraction, leaving the gas sent over the Amarillo line without any accounting for the natural gasoline contained in that natural gas.

Q. And you concluded that was wrong?

A. I concluded that the natural gasoline was a thing inherent to the natural gas.

Q. In order to have reached that point you had to ignore the contract between the parties covering the purchase and sales of gas which was later processed, is that not right?

A. That is a matter of financial arrangement between the companies as to whether they so chose to treat it in that fashion. My consideration was primarily from a cost standpoint.

Q. Well, let's go back to my question. In order to reach the conclusion you did, you had to ignore express contract provisions between the parties covering their respective rights and obligations in the purchase and sale of gas, is that not correct? I understand you to so testify here this morning.

A. To what effect, Mr. Spencer?

Q. Well, do we have to go back over that again?

A. I am not certain as to what reference you have.

Q. The gas is sold at the well, did you so testify?

A. I did.

Q. You also testified you had no recollection of any provision which gave the Canadian River Gas Company the right to extract gasoline from the gas so sold?

A. That is right.

Q. You also said that you knew of no provision in the contract which gave Canadian River Gas Company the right to any of the proceeds from gasoline that might be extracted from the gas so delivered?

A. No mention of it was made in the contract.

Q. Well, no mention—

A. No provision.

Q. You know of no provision, do you?

A. I know of no provision.

Q. Well, then, there is nothing in the contract which would give you any right to do anything which you are doing here, is that correct?

A. Not under the terms of the contract.

Q. Therefore, you had to ignore the contract in order to arrive at this entry, is that not correct?

A. To that extent, yes.

Q. And why do you ignore the contract?

A. Due to the reason that, as I cited, considering that natural gas was an inherent property in the natural gas—the natural gasoline, I should say, is an inherent element in the natural gas which was produced by Canadian River Gas Company.

Q. All right, and is that the only reason upon which you base this entry?

A. I would say it is.

Q. All right. Now let us assume that Amarillo Oil Company paid an income tax on this revenue here which you have indicated in Entry No. 101. Have you made any allowance for deduction from this income or revenue which might be necessitated by the payment of income taxes on it?

A. This represents only the net income from these operations.

Q. You have made no provision here for income tax on these profits which may have been made by Amarillo Oil Company, is that correct?

A. That is right.

Q. And to that extent the figures you show here do not represent net income to Amarillo Oil Company at all, do they?

A. I would say they do in part.

Q. If in fact Amarillo Oil Company paid an income tax on these profits which you have shown here, then is it not true that these figures do not represent actual net income to Amarillo Oil Company?

A. Well, I might state it then before Federal income tax, if any were paid.

Q. To what account in the code do you credit these items, Mr. McKinstry?

A. To natural gas production, residuals produced-credit.

Q. No. 747.1, isn't it?

A. That is correct.

Q. Now, what part of the instructions for that account pertain to this particular transaction? Will you read that into the record, only that part which may be necessary? If

is all in the paragraph with the capital letter "A," isn't it, Mr. McKinstry?

A. Well, the mechanics of the transaction wouldn't necessarily follow—

Q. But the basic instruction is in the first paragraph under 747.1, is that correct?

A. Yes, I think that is so.

Q. Will you read that into the record, please?

A. All right. Page 112 of the Uniform System of Accounts under 747.1, "Residuals Produced Credit."

A: "This account shall be credited in the appropriate subdivisions of Account 131.1, material and supplies—gas debited monthly with the estimated value of residuals and other byproducts obtained in connection with the production of natural gas, whether intended for sale or for use in operations."

Q. Now, that has reference to the production of natural gas gasoline by the accounting company, doesn't it, and in this instance consider for the moment Amarillo Oil Company to be the accounting company?

A. I don't know whether I could make that assumption in the case of Amarillo Oil.

Q. Do you think this is a correct account for this adjustment?

A. I do.

Q. Notwithstanding the fact that Amarillo Oil Company does not do the processing, has nothing to do with that operation, and neither does Canadian River Gas Company?

A. The entry is not premised on that

Q. Notwithstanding that, I say, you think that is correct?

A. I do.

Q. Suppose you turn to Page 92, revenues and processing natural gas, 617. Now read that and tell me if you think that particular account has any application to this transaction.

A. Referring to Account 617?

Q. Yes.

The Trial Examiner: Do you wish to have him read it into the record, Mr. Spencer?

Mr. Spencer: If he please.

The Witness: Page 92 of the Uniform System of Accounts, 617, revenue from processing natural gas: then in quotes:

"This account shall include the revenue derived from royalties and permits or other bases of settlement for permission granted others for the right to remove products from natural gas."

By Mr. Spencer:

Q. Now, do you think that has any application to the transaction we are considering here in your Entry No. 101?

A. No, I believe not under the interpretation which I have given the matter of endeavoring to determine the cost of production.

Q. All right, that is your interpretation?

A. That is correct.

Q. Just once more, you have also testified, have you not, that this gasoline is extracted by Cannon Gasoline Company pursuant to a contract?

A. That is, a contract between Amarillo Oil Company and Cannon Gasoline Company.

Q. Is that not correct?

A. That is correct.

Credit to Gas Revenue Account of Royalties Received From J. M. Huber Petroleum Company in the Years 1937, 1938 and 1939 Arising From Sale of Respondent's Lease No. 94 in 1931

This item appears as Entry 102, sheet 35, Exhibit 168, and involves the following amounts:

1937	$323.53
1938	184.65
1939	256.69

The explanation made by Mr. McKinstry on this Entry 102 is as follows:

"To transfer from nonoperating income to gas revenues, royalties received from J. M. Huber Petroleum Company in the years 1939, 1938 and 1937 arising from sale of Respondent's Lease No. 94 in 1931."

Mr. McKinstry made no further explanation of this adjustment, although by the nature of his entry he assumes Canadian should set up as gas revenues the income received on property sold in 1931.

Deduction From Operating Expense Involving Bivins Gasoline Plant

This item appears as Entry 110, sheet 42, Exhibit 168, and involves the following amounts:

1937	$26,617.62
1938	3,288.69
1939	5,778.35

The explanation made by Mr. McKinstry on this Entry No. 110 is as follows:

> "To adjust production expenses (residuals operation) for amounts included therein and credited on Respondent's books to miscellaneous nonoperating revenue representing amortization and retirements earned on investments in Bivins gasoline plant. The Respondent's entries, if not reversed, would result in overstatement of production expenses (residuals operation) since annual depreciation as revised by the Commission's accountants includes provision for amortization of Respondent's investment in gasoline plant."

In his cross-examination MR. MCKINSTRY testified: (Vol. XLVII, pp. 6476-6481.)

Q. Turn to your Entry No. 110 on Page 42 of Exhibit 168. I think I understand what you have in mind in this entry, Mr. McKinstry, and I assume you did it for the purpose of setting up these accounts so as to conform more closely to code requirements?

A. Well, not entirely. That is within the general outline of that code, always bearing in mind that we have endeavored to follow the basic accounting concepts.

Q. Well, now, you have this item relating to gasoline plant—this item relates to gasoline plant, doesn't it?

A. Yes, it does.

Q. Are you familiar with the company's practices with

respect to its settlements with land owners and others for royalties and gasoline extracted from natural gas?

A. Yes. That is, referring to the lease provisions, and so forth, or the general basis of—

Q. Well, sometimes it is in a lease provision and sometimes in a supplemental agreement or letter of some character. Are you familiar with that?

A. I think I am familiar with the general outline of the factors to be included.

Q. What is the basis utilized by the company generally in settling with its lessors and other royalty holders for royalties on gasoline extracted from natural gas?

A. Why, I believe it is usually on the net proceeds from the sale of natural gasoline in most instances.

Q. The royalties are figured on a certain percent or fraction of the net income, is that not correct?

A. That is true.

Q. Now, it has been the company's practice in arriving at that income for the purpose of royalty settlement to include as a part of the cost of extracting the gasoline, amortization and interest on the gasoline plant investment, is that correct?

A. That has been the company practice, yes.

Q. And what you do here is take it out?

A. According to the books that is true, yes.

Q. You are not attempting to say here that it is not properly part of the operating costs for the purpose of—to record these entries here on the books of the company in order to make correct settlement with royalty holders, are you?

A. You mean to include in that question whether I would consider it improper to record the amortization on the books in this fashion—amortization and retirements?

Q. I am saying this, Mr. McKinstry: The company as a practical matter must keep sufficient records in order to determine what its net income is on this gasoline plant investment and the gasoline extracted from gas that goes through it, and its custom and practice in the past, and it is so provided in some instances, has been to include in its cost these entries here involving retirements, amortization of this investment.

A. Of course, that is presumably for depreciation only.

is it not—I mean, that is what it is, under the general outline of the accounts.

Q. That's right.

A. We are required to put depreciation in one account even though it relates to this property, so for the sake of this particular medium it may be employed by the company for consideration in its determination of royalty settlements.

Q. Yes.

A. There is no exception taken on my part in that respect.

Q. You can even see the necessity for some sort of computations of that character satisfactory between the parties?

A. If those are the elements which the lease provisions impose, why, that would be for the company to determine the manner in which they elect to do it.

Q. You are not attempting to set yourself up as an arbitrator or *criterian* as to whether or not we are treating our royalty holders fairly or unfairly, are you?

A. No, there is no consideration there.

Q. Well, if we took these items out of our books entirely, the only effect of that would be to increase revenue to the royalty holders?

A. Yes, but—

Q. —and decrease our own net income, is that not correct?

A. No, but reading on in this description, reference is made that the annual provision for depreciation will, of course, be reflected under depreciation as an operating revenue deduction.

Q. Well, does that have reference to this exhibit on depreciation that is to follow?

A. The depreciation as applicable to the gasoline plant will be included there.

Q. Well, is that the main purpose in making this entry, to clear the decks?

A. That is correct.

Q. For this coming exhibit?

A. That is right. Well, I would say primarily to remove from the residuals operation expenses the amount which the company has included in lieu of depreciation.

Q. Turn to your Entry No. 111 on Page 43. The subject matter of this entry as related to—.

A. 110.

Q. —the discussion that we have had there will be generally applicable also to 111, would it not?

A. Yes, except that whereas depreciation would be provided in some respect in another section of the operating expense—operating revenue deductions in this instance.

Q. It would be eliminated entirely?

A. That's right.

Q. And you are doing that only for the purpose of this study?

A. That is correct.

Q. And without regard to the necessities of doing just exactly what we have to—or what we have done in order to carry out our obligations with our land owners and our lessors, is that right?

A. Of course, I can't see where you would be obligated to the lessors in this instance, necessarily.

Q. Well, are you testifying that you know what we should do?

A. No.

Q. Then you don't know what we should do in this respect in order to carry out our obligations?

A. I am merely treating the residuals operation expenses only.

Deduction From Operating Expense Amounts Representing Interest on Investment in Bivins Gasoline Plant

This item appears as Entry 111, sheet 43, Exhibit 168, and involves the following amounts:

1937	$20,734.58
1938	20,923.09
1939	20,903.02

The explanation made by Mr. McKinstry on this Entry 111 is as follows:

"To adjust production expenses (residuals operation) for amounts included therein and credited on Respondent's books to interest revenues, representing interest on investment in Bivins gasoline plant. The Respondent's entries, if not reversed, would result in overstate-

ment of production expenses (residuals operation). Interest on investment is chargeable to the return or gross profit from operations and is not a component of operating expense.".

With reference to this item Mr. McKinstry testified (Vol. XLVII, p. 6480) that his testimony with reference to Item 110 is generally applicable to this item, and that in making this elimination he is merely treating the residuals operating expenses only, without consideration as to what the company's obligations to its landowners or lessors may be.

Deduction From Operating Expenses of Allowances Made to Colorado Interstate Gas Company to Compensate It for Loss of B.t.u Content, Etc.

This item appears as Entry 112, sheet 44, Exhibit 168, and involves the following amounts:

1937	$27,548.34
1938	22,368.23
1939	28,153.07

The explanation made by Mr. McKinstry on this Entry 112 is as follows:

"To adjust production expenses (residuals operation) for amounts included therein by Respondent representing allowances made to Colorado Interstate Gas Company to compensate it for loss of B.t.u content in natural gas delivered to certain of its industrial customers, attributed to the extraction of gasoline from natural gas by Respondent at its Bivins gasoline plant. These allowances represent only portions of price reduction made by Colorado Interstate Gas Company to certain industrial customers as a result of the B.t.u. content of gas deliveries being less than that specified in the respective contracts of sale. The portion of the price reduction passed to the Respondent by Colorado Interstate Gas Company is here regarded as an adjustment of Respondent's revenues which may not properly be included as a charge to operating expenses."

In testifying concerning this deduction Mr. McKinstry stated (Vol. XLVII, pp. 6481, et seq.) that this elimination is made only for the purposes of this particular study and he is not attempting to say what changes, if any, should be made in the books of account of the company on this particular subject.

Deductions From Operating Expense of Trustee's Fees Paid the Chase National Bank of New York City, Trustee

These deductions are, \$937.34 for 1937; \$1167.86 for 1938; and \$220.42 for 1939, and appear in Entry No. 117, sheet 49, Exhibit 168. The explanation made by Mr. McKinstry on this entry No. 117 is as follows:

> "To transfer to miscellaneous income deductions the Respondent's expenses for trustees' (The Chase National Bank of New York City—Trustee) fees, etc., under its bond indenture during the years 1937, 1938 and 1939. Since the original expenses in connection with the issuance of bonds are ultimately charged to income deductions through amortization of debt discount and expense, current bond expenses are likewise regarded as financial expense and therefore reclassified as income deductions."

In his examination with reference to this Entry No. 117 (Vol. XLVII, p. 6489, et seq.) Mr. McKinstry testified that the company has certain expenses in connection with its outstanding bond issue, namely, payment of fees and expenses to a trustee under an indenture, a portion of which expenses the company, during 1937, 1938 and 1939, has charged to production expenses. Mr. McKinstry has removed them from the utility income account of the company as not being properly chargeable to gas operation, but as being an incident to corporate finances and not a cost of service to the gas consumers. In the Commission's accounting code there is a specific provision relating to the amortization of debt discount and expense and he has interpreted these expenditures as being within the same category. (Vol. XLVII, p. 6490.)

Mr. McKinstry's attention was called to Account 801, page

128 of the code, reading in part: "This account shall include such items as expense applicable to the Gas Department * * * fees of transfer agents, registrars of stock, and fiscal agents." He was asked whether he did not consider that a trustee, acting in the capacity of the Chase National Bank of New York City, would be considered as a fiscal agent. He answered he thought so, although he did not regard these fees in this Entry 117 in that sense. He stated that if he is wrong in his analogy between a trustee in this situation and amortization of debt and discount expense, then his treatment of this item would be different. He also stated that as an accounting matter, independent of these rate proceedings, he did not find any fault with the manner in which the company has treated these expenditures on its books.

Deductions From Operating Expenses of Certain Amounts as Being Nonrecurring Expenses

This item appears as Entry 112, sheet 50, Exhibit 168, and involves $6274.35 in 1938 and $222.60 in 1939. The 1938 expenses included in this item cover $5143.88 for the making of a Torsion Balance survey of areas adjacent to supposed fault line on the Bivins and Masterson leases, $390 paid to the Southwestern Development Company to cover traveling expenses in connection with a proposal to consolidate Canadian River gas leases, and certain small sums paid to P. C. Spencer, George Baird and R. E. Wertz.

The explanation made by Mr. McKinstry on this Entry 112 is as follows:

> "To segregate as nonrecurring the expenses incurred during 1938 and 1939 in connection with consolidation of various leases. The purpose of these expenditures was such that repetition of similar expenses in future years is improbable."

With reference to this entry and other entries covering so-called nonrecurring expenses, Mr. McKinstry testified (Vol. XLVII, pp. 6493, et seq.) that the primary purpose in setting them up in a different classification is to earmark them for attention as a class of expenditure that is not apt to occur in the future.

Deductions From Operating Expenses of Certain Amounts Paid for Federal Capital Stock Tax

This item appears as Entry 127, sheet 56, Exhibit 168, and involves the following amounts:

1937	$2608.50
1938	1832.00
1939	2021.00

The explanation made by Mr. McKinstry on this Entry 112 is as follows:

"To transfer to miscellaneous income deductions the portion of Federal capital stock tax for 1937, 1938 and 1939 not properly includible in operating revenue deductions, computed as follows:"

Mr. McKinstry further testified as follows: (Vol. XLVII, pp. 6495-6504.)

Turn to Page 54. Your Entry 125, as I understand that entry it merely changes the company's income taxes to operating expenses on an accrual basis rather than a cash basis?

A. That is true.

Q. That is also true as to Entry R-126, Page 155, which has to do with capital stock payments?

A. That is correct.

Q. Now, for the purposes of this study you prefer recording these expenses on an accrual basis?

A. That is correct.

Q. And you have done the same thing with respect to other items of expense which the company has kept on a cash basis rather than on an accrual basis?

A. That is correct.

Q. Let me ask you this: Are you familiar with—well, I guess I asked you if you were familiar with the Canadian River Gas Company and Colorado Interstate Gas Company contract respecting the sale of natural gas, and you said generally, didn't you?

A. Yes.

Q. Are you sufficiently familiar to say whether or not that contract contemplates that the company shall keep such costs as they have involved here in Entries Nos. 125 and 126 on a cash basis rather than on an accrual basis?

A. I really don't know whether the contract is specific in that regard or not.

Q. Don't you think the company would probably keep its books on an accrual basis if it were not required to do otherwise by contract?

A. It wouldn't be within my province to say.

Q. You wouldn't want to say about that?

A. No.

Q. You are not prepared to say that the contract which the Canadian River Gas Company has with Colorado Interstate Gas Company covering the purchase of gas does not require that its operating expenses be recorded on a cash basis?

A. No, I do not.

Q. You didn't take that into consideration in making these reclassifications or adjustments involving changing from a cash to an accrual basis?

A. No, I did not.

Q. Does the code require you to set up these items on an accrual rather than a cash basis?

A. I believe it makes reference to the calendar period. I think that is the general accounting practice.

Q. Would you say that it was obligatory under the code to set it upon an accrual rather than a cash basis?

A. I don't know that I would be in a position to pass upon that point. I don't know. That is merely an accepted accounting practice in general.

Q. Generally speaking, your reclassification of accounts from a cash to an accrual basis does not affect the ultimate picture so far as Canadian River Gas Company is concerned, that is, the overall picture?

A. No, it does not.

Q. All I am trying to do is to find out just why you make the change; why you think it is necessary.

Now turn to Page 56, your Entry No. 127. Perhaps I will let you explain this Entry in your own words and your reasons for it—I mean a general description.

A. Yes. This is throwing below the line the portion of the Federal capital stock tax for each of the years 1937, 1938 and 1939, and which I have determined relates to the excess of the amount of tax that would normally have been paid if the tax were based on the company's net worth rather than its declared net worth.

Q. Well, for the purpose of your calculation, how did you determine net worth?

A. By the addition of the net worth factors, capital stock and surplus.

Q. As shown on the books?

A. As shown on the books.

Q. Now, you used the terminology "normal tax which the company would have paid." Tell me again what you mean by the normal tax which the company would have paid.

A. Well, by that I refer to the net worth factors of the capital stock plus the surplus.

Q. Now, why did the company declare valuations for capital stock purposes and pay capital stock taxes in excess of the amounts that you have indicated as being normal?

A. Will you restate the question?

(The question referred to was read by the reporter as set forth above.)

The Witness: Truthfully, I don't know that I can state why they did.

Mr. Spencer: Let's get at it in another way.

Q. Does your entry here imply that the company has been improvident in its declaration of values and its payment of taxes on capital stock?

A. I don't think it would be for me to say whether they were or were not.

Q. Well, your records show here they have declared certain values and paid certain taxes. Now you have come along and made your adjustment. As I gather it from your entries you say they paid too much; they shouldn't be allowed that much. There must be a reason for that.

A. I don't think there has been any reflection to say they have paid too much. It is merely taking the excess of

the tax which applies to the portion of the excess of the declared net worth over the net worth as shown by the company's books.

Q. Well, now, in the last paragraph of your explanation with reference to this entry you say "Since excess profit taxes are not a necessary cost of conducting gas operations, capital stock taxes paid to avoid excess profit taxes are likewise not properly includible in the cost of gas operations."

Have I quoted you correctly?

A. You have.

Q. Do you think these taxes were paid by the company to avoid another tax; to-wit, the excess property tax?

A. I am afraid the assumption has been stated here in the wording.

Q. I am leading up to something else. That is why I asked that question. Will you answer that question?

A. Will you repeat the question?

(The question referred to was read by the reporter as set forth above.)

The Witness: I believe that implication is contained in the wording of this entry which you have just read.

By Mr. Spencer:

Q. Well, if they hadn't declared any value for capital stock purposes and they hadn't paid any taxes on that basis, they would have paid excess profit tax, is that not correct?

A. I think that is the general consequence.

Q. Do you not think the company here did the reasonable and prudent thing to declare a value on its capital stock for the purpose of avoiding much greater tax that would have had to be paid in the form of excess taxes?

A. I don't think that I should endeavor to pass judgment on the wisdom that they have—that they may have adopted.

Q. Well, are you prepared to say that capital stock tax that the company has paid is not an ordinary prudent and reasonable expenditure of the company as it has been made?

A. I believe we have made a limitation here to the por-

tion that relates only to the net worth and have associated that with the cost of gas operations, and the remainder which the company has paid is not—no exception is taken to that.

Q. You are running around me and I don't think there is any necessity for it.

What would have happened if the company had declared values and paid taxes as you indicated that it should have done? Would the company then have paid excess profit taxes in excess of the capital stock tax that it paid?

A. I think that is highly hypothetical. I don't believe I should be drawn into that point.

Q. I am trying to get you to join in here sufficiently to explain what you have done. Let me ask you the question again:

Do you consider the capital stock tax payments made by the company to be ordinary and necessary operating expenses of the company as such?

A. As of the entirety?

Q. Yes.

A. Yes, I do, as required by law.

Q. Then, maybe we are getting some place. For the purpose of this rate proceeding you are making certain adjustments, is that right?

A. That is true.

Q. And the basis of that adjustment is what?

A. It is deemed only the portion of that tax which relates to the net worth of the company as assessable against the gas operation.

Q. Well, where should the balance of it be assessable?

A. The balance as indicated in this entry falls below the line.

Q. What is the effect of that so far as this proceeding is concerned?

A. It is not included in the cost of gas operation.

Q. You have got a code provision that serves as a guide for you in this Entry No. 127, Mr. McKinstry?

A. Not specifically. I think it comes within the general provisions of the general instructions, notably on Page 7 of the Uniform System of Accounts under Paragraph 2, Sub-paragraph F.

Q. All right, will you read that in, please?

A. Yes.

"All charges to the accounts prescribed in this system for gas plant, operating revenues and operating expenses shall be just and reasonable, and any payments by a natural gas company in excess of just and reasonable charges shall be included in Account 538, Miscellaneous Income Deductions."

Q. These charges that we have involved here are charges paid to the United States Government, is that correct?

A. Yes, sir.

Q. And I assume, then, after reading your instruction that the United States Government has been unjust and unreasonable in charges made here for capital stock purposes, is that correct?

A. No, I think there is another factor in the equation. The basis upon which the tax has been paid has been—the basic reason for not considering that all of this tax which has been paid is properly chargeable to gas operations—in other words, had the tax been related to the book net worth of the company, no adjustment would have been made.

Q. That factor in the equation which you mention you get outside of the paragraph that you quoted from the code, is that not true?

A. This refers to the excess of any just charge.

Q. Yes.

A. Therefore, if the whole amount has been included, it has been determined as not being wholly just but only just in part as related to gas operations—

Q. But it starts off "All charges" and so forth "shall be just and reasonable." The very first part of the sentence—is that not correct?

A. I don't believe that it would not permit the separation of any given amount, however. If any portion—it also refers later on in the same sentence—"* * * shall be just and reasonable, and any payments by a natural gas company in excess of just and reasonable charges shall be included in Account 538, Miscellaneous Income Deductions."

We are merely dealing with the excess here.

Mr. McKinstry stated that the charges involved in this entry are charges paid to the United States Government, but he then stated that the basic reason for his not considering that all of this tax which had been paid is properly chargeable to gas operations is that the tax is not related to the book net worth of the company, and if it had been related to the book net worth of the company, no adjustment would have been made.

Restating of Billings to Amarillo Oil Company for Gas Delivered to Panhandle Pipe Line Company.

This item appears as Entry 133, sheet 60, Exhibit 168, and involves the following amounts:

1937	$29,903.86
1938	26,076.03
1939	26,811.90

The explanation made by Mr. McKinstry on this Entry 133 is as follows:

"To restate billings to Amarillo Oil Company for the period from July 1, 1931, to December 31, 1939, for gas delivered to Panhandle Pipe Line Company at the ascertained rate provided in sales contract with Amarillo Oil Company dated January 3, 1928. In accordance with a supplemental agreement dated July 1, 1931, to the aforementioned sales contract, a billing rate of 4½ cents per MCF was used during the foregoing period. From July 1, 1931, through 1935, the ascertained rate was in excess of 4½ cents per MCF and subsequent thereto the ascertained rate has been less than 4½ cents per MCF. The amount of $34,519.70 transferred to deferred debits by this entry represents the portion of the excess of the ascertained rate from July 1, 1931, through 1935 over 4½ cents per MCF which had not been offset as of December 31, 1939, by the excess of 4½ cents per MCF over the ascertained rate subsequent to 1935. The supplemental agreement dated July 1, 1931, provides that the ascertained rate per MCF will be used instead of 4½ cents per MCF when the

deficiency of $34,519.70 as of December 31, 1939, has been entirely offset."

MR. MCKINSTRY further testified as follows: (Vol. XLVII, pp. 6504-6508.)

Q. Turn to your Entry No. 133 on Page 60, please. Now, see if I state this correctly, Mr. McKinstry:

Pursuant to a contract dated January 3, 1928 between Amarillo Oil Company and Canadian River Gas Company, it is provided that Canadian River shall sell gas to Amarillo Oil Company on a cost basis as stated in the contract. Now, in July of 1931 that particular contract was amended so as to provide for a billing rate for gas sold to Amarillo Oil Company not to exceed four and a half cents per Mcf.; that is to say, if the cost price is computed on the original contract and it was in excess of four and a half cents, Amarillo Oil Company would pay only the four and a half cents.

A. That is right.

Q. And subsequently if the cost of gas should fall below four and a half cents, Amarillo Oil Company would continue to pay four and a half cents per Mcf. until it had made up the difference between what it did pay and what it would have paid under the original contract, is that correct?

A. That is my understanding.

Q. Now, you don't question that the agreement of July 1, 1931 did amend the original agreement, is that correct?

A. No, I do not.

Q. Now, you have ignored that amendment, however, in making your computations in No. 133, is that right?

A. That is true.

Q. And recomputed the cost of this gas to Amarillo Oil Company on a basis of the original contract and have ignored the amendment of July 1, 1931, is that correct?

A. That is correct.

Q. All right, now, we are down to that point.

You tell me why you did that, please.

A. Merely to reflect within the respective periods what I have deemed to be the revenue properly applicable to those periods.

Q. But Canadian River did not receive the revenue indicated here in such periods?

A. That is true.

Q. Amarillo Oil Company did not pay these figures that you indicate here—Canadian River received something different and Amarillo Oil Company paid something different?

A. That is true. I have used, as you will understand, the accrual method, and under that method it would be necessary to give recognition to the underbilling that existed up to a certain point.

Q. Well, I haven't quarreled with you much on your accrual basis, but take a look at this, Mr. McKinstry: Let us assume for the purposes of testing the rationality of what you have done, let us assume that the cost of gas as computed under the original contract never fell below four and a half cents. Would you then go ahead and continue to set up what Amarillo Oil Company would have paid under a contract that had been amended?

A. Well, expression would be given to indicate that that was something to be reckoned with.

Q. Yes.

A. In other words, the companies have indicated that they have gone into another arrangement whereby the normal income or the original agreement followed has been amended whereby income has been foregone in an earlier period to be taken up in a subsequent period. That would be given recognition under the accrual method.

Q. Yes, but getting down to the realities of the situation, wasn't the effect of this amendment entered into between the parties in July 1931 to place a ceiling over the price to be paid for this particular gas, to-wit: four and a half cents per Mcf.?

A. Well, I don't think that I should go into that, as to why they did it.

Q. You have gone plenty far already, you might just as well go ahead. It seems to me you have got to go ahead if you are going to tell me why and wherefore you did this.

A. Well, I believe that I have stated it is done on an accrual basis and the facts so developed in the light of the way this billing has been carried on indicates that the amount outstanding at the end of 1939 is a very nominal sum. $34,519.70.

Q. Well, now, Mr. McKinstry, during all of this period the company actually paid four and a half cents per Mcf. for its gas.

A. That is the basis of settlement.

Q. Why in the world do you need to do any accruing about that, that is an absolute transaction?—four and a half cents.

A. Well, the revenue in the later years, from 1936 on, in effect is picking up deficiencies in billings from 1931 to 1935, inclusive. In other words, it is not strictly—that gas was delivered in those years.

Q Well, maybe we can shorten it this way. In making this entry you did not attempt to follow whatever the contract provisions may be between the parties?

A. That is true.

Q. And it seems to you that if you treated the whole matter on what you term an accrual basis you would get a more level picture on the income involved?

A. I felt that some of the income in 1939 back through 1936—

Q. I'm not going to quarrel with you. You play havoc with our books, however, and our contracts.

It doesn't have any effect on the income in the end?

A. No. It is just a shift in amounts between years.

Addition to Operating Expenses of Moneys Paid for Delay Rentals and Lease Renewals

This item appears as Entry 201 in Exhibit 168, as shown by sheets 31, 32 and 33, covering the years 1939, 1938 and 1937 respectively. Entry 201 on each of these sheets is directed to the following heading: "To Remove Delay Rentals on Leaseholds From Gas Plant Investment." The amounts added to operating expenses and deducted from operating income by this adjustment for the three years are as follows:

1937	$ 3,200
1938	10,729
1939	6,214.25

Deduction from Operating Expense of the "Appreciated Value" of Certain Leases Charged to Canceled and Surrendered Leases.

This is Item 216 (sheet 31, Exhibit 168) in the adjustments made by Mr. McKinstry under the heading, "To Adjust Gas Plant with Appreciation of Abandoned Leases," and the amount deducted from operating expenses is limited to the year 1939 only, and is the sum of $954.45. This Item No. 216 is likewise covered in the Luttring and Teel Exhibit 146 and is elsewhere abstracted, reference to which is hereby made.

Depletion Adjustments.

Sheets 31, 32, and 33 of Exhibit 168 for the years 1939, 1938 and 1937, respectively, show three entries, numbered 404, 405 and 406, entitled as follows:

"404. To reverse depletion accrual."

"405. To provide annual depletion on operated acreage,"

"406. To provide annual depletion of gas well intangible costs."

Depreciation Adjustments.

Sheets 31, 32 and 33 of Exhibit 168 for the years 1939, 1938 and 1937, respectively, likewise show adjusting entries numbered 407 and 408, entitled as follows:

"407. To reverse depreciation accrual."

"408. To provide annual depreciation based on service lives."

Adjustments Re Plant Retirements.

Sheets, 31, 32 and 33 of Exhibit 168 for the years 1939, 1938 and 1937, respectively, likewise show Entry 412, entitled, "To Remove Plant Retirements from Income."

The following relate to the items of income suspended by Exhibit 168 for the consideration of the Commission, but

tentatively included in income, as adjusted by Mr. McKinstry. These suspended items, with the exception of Item 182, are shown in Schedule B4, pages 4-11 of Exhibit 168, and other supporting schedules. Entry 182 is not shown by Schedule B4, but is the item hereinabove referred to by stipulation transferred from an adjusted item to a suspended item.

Income From Joint Operation of Texoma Natural Gas Company's Gasoline Extraction Plant at Fritch, Texas

As shown by page 4 of Schedule B4, Exhibit 168, the amounts involved in this suspension are:

1937	$132,105.53
1938	75,741.49
1939	118,508.69

Supporting subschedules are: B-20-2, p. 115; B-21-2, p. 130; B-22-1, p. 140. Mr. McKinstry's explanation of this suspension, on page 4, Exhibit 168, is as follows:

"The above amounts relate Canadian River Gas Company's share of the results from joint operation of Texoma Natural Gas Company's gasoline extraction plant at Fritch, Texas. * * *

* * * * * * * * *

"Suspension is made for the reason that the results reported by Texoma Natural Gas Company on the joint operation of its Fritch gasoline extraction plant are subject to the ultimate findings in another proceeding (Docket G-112, Natural Gas Pipeline Company of America and Texoma Natural Gas Company) before the Commission. The findings in the aforementioned case have not yet been made available. Any alterations in the results from operation of the Fritch gasoline plant will in turn affect the amounts as reported to Canadian River Gas Company.

"The gasoline plant at Fritch, Texas, is owned by Texoma Natural Gas Company and is operated by that company for the benefit of itself and Canadian River

Gas Company under a lease and operating agreement dated October 15, 1931, and as modified by letter dated June 8, 1938, a copy each of which is contained in Appendix 1 to this statement (Statement B-4).

"Based upon tentative information re case on Docket G-112 obtained through Chicago regional staff of the Division of Accounts, Examiner in entry No. 182 adjusted the balance per books of Canadian River Gas Company for 1937, 1938 and 1939, giving effect to the substitution of depreciation and return on investment in lieu of the charges provided for in Section 6, paragraph (b) of the original lease and operating agreement dated October 15, 1931, a copy of which is contained in Appendix 1 to this statement. Consideration should, therefore, be given the possibility of any change developed on final disposition of case in Docket G-112. The effect of Examiner's adjustment reduced expenses of joint gasoline operations in each of the three years as follows:

"1939	$11,722.31
1938	5,410.35
1937	7,547.78"

On cross-examination concerning this suspension (Vol. XLVIII, pp. 6552, 6553) Mr. McKinstry stated that this suspension involves both revenue and operating expenses of the Texoma Company in connection with its lease and operations of the Fritch Gasoline Extraction Plant, and possibly a few minor amounts which Canadian has included in connection with these operations. He stated he is not questioning in any respect the entries which Canadian made on its books in connection with this transaction, and that there is no dispute about that. When he was asked to state briefly for the record the purposes of suspending this particular transaction, he quoted again from his statement in Schedule B4 set forth above. Mr. Spencer, counsel for the respondent, and the Trial Examiner then asked Mr. McKinstry certain questions and received answers as follows: (p. 6554)

"Q. Well, you don't mean by that that anything the Federal Power Commission is going to do in the case in which Texoma Natural Gas Company is involved will

operate retroactively to change any of the figures as between Texoma Natural Gas Company and Canadian River Gas Company, do you?

"A. That is the implication.

"Mr. Spencer: You amaze me.

"The Trial Examiner: Do you think there will be?

"The Witness: Should there be any. I don't know that there will be any."

MR. McKINSTRY further testified as follows: (Vol. XLVIII, pp. 6557-6559.)

The Trial Examiner: But your thought is, inasmuch as there is a proceeding involving Texoma that if a final determination made of that proceeding involving the gasoline plant of Texoma results in reduced costs, then Canadian River Gas Company should in turn benefit from that proceeding? Am I clear on that?

The Witness: That is clear. And, conversely, if those operations show an increased cost, likewise the results would be correspondingly affected.

* * * * * * *

The Trial Examiner: And the amounts that you set forth here, Mr. McKinstry, for example, your 1939 amount of $11,722.31, is that more for the purpose of indicating what you think the result might be or—

The Witness: Well, of course, we are more or less basing the adjustment on the matter of principle. The basis and the figures themselves are developed as a result of information obtained from the Commission's Chicago regional office.

The Trial Examiner: And you feel that the Commission should follow the regional office, we'll say the contention of the regional office, that these are the amounts that would result?

The Witness: That is true. That is, in regard to those particular items.

The Trial Examiner: That's all.

Mr. McKinstry then stated that to his personal knowledge the Commission has not entered any order affecting the rate charges of the Texoma Company for the years 1937, 1938 and 1939, and that he has no idea what the Commission may do, even as to the year 1937, which was prior to the passage of the Natural Gas Act, but his thought is that where there are proceedings in progress or investigation, it is only reasonable to await the final findings; that he does not know what effect any order entered by the Commission in the Texoma case would have upon figures in this case as that will develop when that investigation has been passed upon finally. This suspension is based entirely upon his own judgment, and not upon any specific instruction from the Commission's office. To his knowledge Canadian is not a party to the Texoma case (p. 6556). Mr. McKinstry stated, with respect to this suspension, that there was involved here jointly operated facilities which are also involved in another rate proceeding before the Commission, and therefore he thought it ought to be earmarked for the Commission's attention so that it would not be overlooked, and he is not making any recommendations about it.

Upon further questioning by the Trial Examiner (pp. 6557, et seq.) Mr. McKinstry stated that if there were no other proceedings pending before the Commission regarding the Texoma Company, he would handle this item by using the adjustments which he made as the final adjustment of that particular operation without any further reference to it, although he might add that due to the affiliation to some extent between the Texoma and Canadian companies, it might likewise have been suspended, but he did not suspend it for that reason. His thought is that inasmuch as there is a proceeding pending involving the Texoma Company, if the final determination made of that proceeding involving Texoma's gasoline plant results in reduced costs, then Canadian should, in turn, benefit from that proceeding, and, conversely, if those operations showed an increased cost, the results likewise would be correspondingly affected. He stated he had received the amount of his figures from the Commission's Chicago regional office (p. 6559), and in anwer to a question from the Trial Examiner stated that as to these particular items he felt the Commission should follow the contention of the regional office.

Mr. McKinstry testified that there is a contract between the Texoma and Canadian companies covering this operation, a copy of which is set forth at pages 12-16, Exhibit 168; that he would rather not say what effect a final determination by the Commission in the Texoma case might have on the abrogation of this contract, as that is a legal matter. (p. 6560.)

Suspension of General Law Expenses.

The items suspended for consideration of the Commission by Mr. McKinstry under this heading are as follows:

"General Law Expenses:	1939	1938	1937
W. A. Vinson, Houston, Texas	$ 3,240.00	$3,240.00	$ 3,240.00
Vinson, Elkins, Weems & Francis, Houston, Texas	16,488.39	1.39	11,259.57
C. H. Keffer, Amarillo, Texas			590.77
Adkins, Pipkin, Madden & Keffer, Amarillo, Texas	6,625.76	4,379.96	9,185.11
L. M. Fisher, Amarillo, Texas	500.00		
Long, St. Lewis & Nyce, Washington, D. C.			55.36
Miscellaneous	27.86	14.65	
Totals	$26,882.01	$7,636.00	$24,330.81"

Mr. McKinstry's explanation for these suspensions appears on pages 5, 6, 7, and 8 of Exhibit 168, as follows:

"For the most part, Respondent's records, together with supplementary information obtained, do not sufficiently disclose the purposes for which legal services were engaged. Also, the charges represent principally

allocations charged to Respondent by associated companies. It has not been possible to determine the exact basis nor otherwise to arrive at any conclusion as to the reasonableness of such charges or allocations. In view of the foregoing circumstances, all general law expenses contained in the Respondent's operating expenses, as adjusted, have been included in this suspension.

"Examiner's comments relating to the above classes of items are as follows:

Re: W. A. Vinson and Vinson, Elkins, Weems & Francis

"Mr. W. A. Vinson is a member of the firm of Vinson, Elkins, Weems & Francis.

"Below are quoted paragraphs as numbered on page 2 of letter dated April 23, 1940, received from Mr. P. C. Spencer, Vice President of Canadian River Gas Company, in response to Examiner's request concerning charges for 1939 legal services:

"'(2) Vinson, Elkins, Weems & Francis, Houston, Texas.

"'The vouchers listed . . . represent fees and expenses paid to the above firm for legal services rendered by members of the firm on behalf of the Company during the year 1939. Such services were performed principally in connection with legislative matters relating to taxation, conservation and proration of natural gas production in the Texas Panhandle Field, in which the Company is vitally interested. In addition to legislative matters, during the year members of the firm also appeared on behalf of the Company before state boards and agencies with respect to various miscellaneous matters affecting the Company's business and affairs. While the firm has heretofore represented the Company in litigated matters, and is retained for that purpose, it was not called upon to do so during the year 1939.'

"'(3) W. A. Vinson

12 monthly payments of $270.00 each for retaining fees.

Mr. Vinson's legal firm has been retained by the Company over a period of years. The above mentioned payments, which were made to Mr. Vinson for the account of his firm, represent the annual retainer fee for the services mentioned in item (2) supra.' (Full fee is \$300.00 monthly; \$30.00 monthly is invoiced to Red River Gas Company.)

"Charges to Canadian River Gas Company for annual retainer fee and for special services constitute 90% of the total charges rendered, the other 10% having been invoiced to Red River Gas Company. This division follows the practice outlined in the second paragraph, page 2 of Mr. P. C. Spencer's (Vice President of Canadian River Gas Company) letter dated March 11, 1940, addressed to Examiner, which reads in part:

"'* * * Southwestern Development Company has two subsidiaries engaged in production of natural gas in the Texas Panhandle Field—Canadian River Gas Company and Red River Gas Company. It has been the practice over a period of years to divide between these two companies any general expense involved in the protection of their mutual and common interests as gas producing companies, on a basis of 90% to Canadian River and 10% to Red River, which is estimated to represent the proportionate relationship of their interests; * * *'

Re: C. H. Keffer and Adkins, Pipkin, Madden & Keffer

"Mr. C. H. Keffer is a member of the firm of Adkins, Pipkin, Madden, & Keffer.

"Practically all of the above charges have been received through Amarillo Oil Commpany acting on behalf of associated Southwestern Development Company subsidiaries and, in this connection, the third and fourth paragraphs of Mr. P. C. Spencer's March 11, 1940, letter to Examiner are quoted:

"'Over a period of years the law firm of Adkins, Pipkin, Madden & Keffer has been retained to repre-

sent all subsidiaries of Southwestern Development Company operating in the Texas Panhandle District. One lump sum retainer fee (now $10,000.00 per annum) is paid for all companies included in the arrangement. The retainer fee is divided between the several companies represented in proportion to the time devoted to office and routine business of the respective companies. The record of time so spent is kept by the firm and the allocations resulting therefrom have been changed from time to time to conform substantially to such record.

"'The retainer fee referred to above covers only normal office and routine work. Whenever other services are performed which involve only one company, all expenses and fees, in connection therewith are charged direct to that company; * * * Whenever separate services are rendered for more than one company on the same trip, all expenses and fees, if any, in connection therewith are allocated between such companies in proportion to the amount of time devoted to their respective businesses; * * * Whenever services are rendered in connection with a common interest of more than one company, the expenses and fees, if any, for such services are allocated between such companies in proportion to their respective interests; * * *'

"Joint direct conversations with representatives of Amarillo Oil Company and Mr. C. H. Keffer were had in an endeavor to obtain an understanding of the legal services rendered and the allocation of charges therefor to Canadian River Gas Company and other companies associated with it. Examiner Luttring's notes on these conversations read in part:

"'The firm of Adkins, Pipkin, Madden & Keffer are paid a retainer fee of $10,000.00 per year (by Amarillo Oil Company in quarterly installments) for services rendered to the following companies:

Company	Functional Character of Business
Canadian River Gas Co.	Production
Amarillo Oil Co.	Transmission
Amarillo Gas Company	Distribution
Clayton Gas Co.	"
West Texas Gas Co.	"
Dalhart Gas Co.	"
Red River Gas Co.	Production
Panhandle Pipe Line Co.	Transmission
Parcomis Oil & Gas Co. (oil only)	Production

" '* * * explained to Mr. Keffer that the invoices rendered to Canadian River Gas Company by Amarillo Oil Company for their portion of the retainer did not show the description of the work performed. Mr. Keffer produced a diary for the years 1938 and 1939 (1937 diary had been destroyed) in which a notation is made of the name of the company, number of hours and brief description of the work performed. Mr. Keffer pointed out that the hours shown are the actual hours of service performed either in conference or on work for the Company; it did not include his time for services preparing for opinions and other counsel, to the companies.

" 'The retainer fee is paid each calendar quarter by Amarillo Oil Company, which company prorates the fee on the basis of hours of service rendered to the respective subsidiaries participating in the fee. * * *

" 'We requested permission to use the diaries to extract information related to Canadian River Gas Company, which request was at first granted but Mr. Keffer decided after we had returned to our office, to make typewritten lists of the diary notes. (These lists were duly obtained.)

" 'The matter of lack of description of the character of expenses was also discussed and Mr. Keffer informed us that it has always been the practice of their firm to only account for the amount spent on out-of-town trips, the difference between his cash at the be-

ginning and end of the trip. We suggested he give us a letter stating the nature of the expenses charged to Canadian River Gas Company.'

"Mr. Keffer responded by letter, May 14, 1940, which in part reads as follows:

"'You are advised that the expenses include such items as transportation, hotel bills, meals, tips, taxicab fares, telephone and telegraph bills, and occasionally stenographic bills. When I transact business for more than one client on the same trip the expense account is prorated.'

Re: Other Charges suspended

	1939	1938	1937
L. M. Fischer	$500.00	....	....
Long, St. Louis & Nyce	....	....	$55.36
Miscellaneous	27.86	$14.65	....
	$527.86	$14.65	$55.36

"The above amounts, though suspended, appear to be proper charges concerning which no fundamental questions are raised, hence it is the Examiner's recommendation that they be allowed as acceptable charges to gas operating expenses."

On cross-examination concerning this suspension Mr. McKinstry testified (Vol. XLVIII, pp. 6560, et seq.) that this suspension involves certain fees and expenses paid to attorneys by Canadian for the years 1937, 1938 and 1939; that he is not disputing the fact that these attorneys rendered services to the company or that these services were of value and were needed by the company, and that he is not indicating in any manner that the amounts paid for the services were unreasonable. He suspended these fees and expenses because the company records do not sufficiently disclose the purposes for which the legal services were engaged (p. 6561). He testified he was furnished information concerning these services by Mr. Spencer and was referred to Mr. Spencer's letters quoted above in Mr. McKinstry's explanation, and then stated that the principal

reason for suspending these general law expenses in their entirety was to put all of the expenditures for legal services in one account and to give the Commission opportunity to review all the expenditures of that sort, and, particularly, as to the payments to Vinson, Elkins, Weems & Francis of Houston, Texas, 90% of which were charged to Canadian and 10% to Red River Gas Company. He testified he had received an explanation of this division from Mr. Spencer (p. 6563), but wanted to place all the information before the Commission and did not ask for any further information than that secured from Mr. Spencer. Mr. McKinstry also testified that he had not asked for any further information as to the fees paid Mr. Keffer's firm (p. 6564), but he simply felt it was advisable to flag the whole transaction for the Commission's consideration, the reason largely being because the transactions involved allocations between associated or affiliated companies rather than any failure upon the part of Canadian to give him more information or data.

Suspension of Management and Supervision Fees and Expenses and Special Services.

This suspension appears on pages 9 and 10 of Exhibit 168. The amounts thereof and Mr. McKinstry's explanation are as follows:

> "The amounts shown represent all charges made by associated companies other than for insurance and certain telephone services on a recognized cost basis, and the legal fees and expenses included in Suspension B above. The nature of the charges appears in the details supporting Examiner's entries providing segregation from the several accounts in which originally included by Respondent, to classifications shown above. A summary of charges by associated companies and reference to Examiners entries follows:

	1939	1938	1937
Amarillo Oil Company	$10,013.22	$ 9,902.16	$ 9,752.86
Southwestern Development Company	884.70	283.50	330.00
	$10,897.92	$10,185.66	$10,082.86
Examiner's Entry No.	R-178	R-179	R-180

For each of the three years there is included in management and supervision fees and expenses $7,500.00 charged by Amarillo Oil Company to compensate for services of R. E. Wertz et al. It is the Examiner's recommendation that these annual payments be disallowed in the cost of gas operations by reason of Respondent's failure to substantiate satisfactorily the reasonableness and exact nature of the charges.

"Mr. P. C. Spencer (Vice President of Canadian River Gas Company), in response to Examiner's request, submitted the following explanation regarding the annual charge of $7,500.00, in a letter dated March 11, 1940:

"'This is not a prorated charge. It is a lump sum payment made by Canadian River Gas Company to Amarillo Oil Company for various services rendered to Canadian River by R. E. Wertz and other members of Amarillo Oil Company's staff. The amount of the payment was agreed upon by representatives of Canadian River, Amarillo Oil and Colorado Interstate Gas Company in 1933. The amount agreed upon was estimated to cover the actual cost of services rendered and to be rendered. Since 1933 the services rendered have increased substantially, but the lump sum payment has not been changed.'

"Examiner Luttring visited offices of Amarillo Oil Company and endeavored to obtain further explanations regarding the annual charge of $7,500.00 but without satisfactory result, as indicated from his notes which in part read as follows:

"'Mr. Snyder (General Auditor, Amarillo Oil Com-

pany) refused to give us any information other than that covered in the letters of Mr. Spencer and offered to give us no information until permitted to do so by Mr. Spencer.'

"Examiner Luttring wired Mr. Spencer as to whether Mr. Snyder might furnish names and salaries of individuals and amount of time by character of service performed for Canadian River Gas Company and received the following answer by wire on May 14, 1940:

"(Examiner) 'Luttring's wire yesterday \$7,500.00 fee includes substantial services performed for Canadian by Moody, Baird, Spencer and their respective office forces therefore Snyder cannot give complete answer the charge is so small in view of the total services rendered it would seem to require little if any substantiation however Luttring wants additional details suggest he cover by writing me further letter of inquiry simplified as much as possible bearing in mind we have not maintained any job or time records please advise further wishes.'

"Examiner Luttring's notes further show:

" 'In discussions with Mr. Snyder and from records which we were permitted to examine it was learned that Amarillo Oil Company carries a group of accounts under "Special Administrative Department." Mr. Snyder informed us that salaries of Mr. Wertz, Mr. Snyder and other employees who devote their services to the various subsidiaries under the jurisdiction of this special administrative department are charged to the special department as well as expenses of these employees.

" 'Mr. Snyder stated that the fee of \$7,500.00 charged to Canadian River Gas Company was first deducted from the expenses of the Special Department and the balance then prorated to the other subsidiaries participating in the services of those in the Special Department.

" 'We asked Mr. Snyder the extent to which we could get data representing the expenses related to the

fee of $7,500.00 and his reply was that no information could be divulged except on advice of counsel.

"'Mr. Snyder does not deny that the books of Amarillo Oil Company contain most of the expenses, * * * which relate to the fee of $7,500.00 * * *.'

"The remainder of amounts included in this suspension appear to be reasonable and proper charges to gas operating expenses and, in the opinion of the Examiner, should be passed accordingly."

On cross-examination with reference to this suspension, Mr. McKinstry stated (Vol. XLVIII, pp. 6566, et seq.) that the suspension involves management and supervision fees and expenses and special services rendered to the Canadian River in the years 1937, 1938 and 1939 by Amarillo Oil Company and Southwestern Development Company. The Southwestern Development Company items do not involve fees of any character but are primarily for reimbursement on traveling and other expenses incurred for Canadian, and are so indicated on the records. The principal item suspended is a charge made by Amarillo Oil Company to Canadian of $7500 per year covering general administrative services rendered to Canadian by Amarillo Oil Company. It is indicated that this charge is for various services rendered by R. E. Wertz and other members of Amarillo Oil Company's staff. Mr. McKinstry states he is not questioning that Amarillo Oil Company and Mr. Wertz and others of the Southwestern Development Company group rendered general administrative services to Canadian (Vol. XLVIII, p. 6568), and he is not questioning that the services are of value or that the $7500 per year charge is unreasonable or excessive. There is no indication in the books and records of Canadian that Mr. Spencer ever received any direct payment as Vice President or Director or counsel for the company, or that Mr. N. K. Moody, President and Director of the company, received any direct payment for services he rendered the company, and the same is true as to Mr. George Baird, the Secretary and Treasurer and Director of the company. Mr. McKinstry's attention was then called to the information which Mr. Spencer had furnished him,

which is set forth in the above quotation from Exhibit 168 as to the services rendered for the $7500 annual fee.

Mr. McKinstry further testified as follows: (Vol. XLVIII, pp. 6566-6570.)

By Mr. Spencer:

Q. Let's go to the next mentioned item, Mr. McKinstry, and that involves management and supervision fees and expenses and special services rendered to the company in the years 1937, 1938 and 1939 by Amarillo Oil Company and Southwestern Development Company.

A. That is correct.

Q. Now, there are no fees—

The Trial Examiner: What page is that on, Mr. Spencer?

Mr. Spencer: Sir?

The Trial Examiner: What page is that on?

Mr. Spencer: Page 9.

Q. Now, there are no fees of any character involved in payments made to Southwestern Development Company, is that correct?

A. No, there are none.

Q. Any charges made by Southwestern Development Company to Canadian River primarily for reimbursement on traveling and other expense that I may have incurred for Canadian River or Mr. Baird may have incurred?

A. That is true.

Q. Those items are items of expenses on behalf of and incurred on behalf of Canadian River?

A. As so indicated by the records.

Q. And no fees there by Southwestern Development Company for Canadian River?

A. None.

Q. Now, that takes care of that. The principal item which has been included in the charges made by Amarillo Oil Company to Canadian River is the payment of $7500 per year covering general administrative services rendered to Canadian River by Amarillo Oil Company, is that correct?

A. The only indication we have is services of R. E.

Wertz, et al. That is the extent of the description we have of the item.

Q. Did I furnish you with an explanation with respect to that item? I think you will find it next to the last paragraph on that page.

A. That is true. It is indicated there that various services rendered by R. E. Wertz and other members of Amarillo Oil Company's staff—

Q. Well, I don't think it is necessary to read that into the record. It is in your exhibit and it speaks for it.

A. Yes.

Q. You aren't questioning that Amarillo Oil Company and Mr. Wertz and others of the Southwestern Development Company group rendered service to Canadian River,—I mean, general administrative services?

A. No, I am not questioning that.

Q. You are not questioning that the services are of value?

A. No.

Q. And you aren't indicating in any manner that the payment of $7500 per year is unreasonable or excessive?

A. No.

Q. Did you find any place in your examination of the books and records of the Canadian River Gas Company that I ever received any fee or salary or any other character of compensation from the Canadian River Gas Company?

A. There is no indication of any direct payment having been so made.

Q. No payment to me as Vice President or Director or Counsel for the company that you found in its books and records?

A. No, I found none.

Q. And similarly, did you find any such payment to Mr. N. K. Moody, President and Director for the company for the services he renders to the Canadian River Gas Company?

A. No, I don't recall having seen any, speaking of the last few years.

Q. Now, is that also true of Mr. George Baird who is Secretary and Treasurer and a director of Canadian River Gas Company?

A. That is true.

Q. Now, I believe you have it in here some place where

I explained to Mr. Luttring in a telegram that the $7500 fee paid annually by Canadian River to Amarillo Oil Company includes—this is on Page 10, third paragraph—includes substantial services performed for Canadian River, performed by Moody, Baird, Spencer and their respective office forces. You knew that?

A. That's right, yes.

Q. If I told you, Mr. McKinstry, that during the past year, or let me say during the year 1939, approximately one-third of my time was devoted to the business and affairs of Canadian River Gas Company, particularly in connection with this rate proceeding and that whatever those services were worth to Canadian River Gas Company was included in this $7500 that you have set up here, would you say that was unreasonable?

A. Why, I don't think it would be my place to pass judgment. It sounds—

Q. You mean you don't know how to evaluate my services?

A. I wouldn't attempt to. I'm afraid—

Q. Well, if that were true, can't you say that $7500 would be a pretty reasonable price for all these services that are rendered by those of us who are in Southwestern and Amarillo Oil Company?

A. I don't think it would be within my province. I don't think I could honestly say.

Q. Well, I'm going to leave it up to the Examiner and I won't press you any further.

Suspension of Items Charged to Expense Claimed as Cost of Gas Plant in Report of Ford, Bacon and Davis, Inc., Dated April 15, 1940

This item of suspension appears upon sheet 11 of Exhibit 168 and involves the following amounts:

1937	$10,129.23
1938	9,293.47
1939	16,576.40

Mr. McKinstry's explanation of this suspension, on sheet 11, is as follows:

> "Certain general and administrative expenses for the years 1937, 1938 and 1939, now claimed by the Respondent as gas plant capital expenditures, are suspended in order that the expenses so claimed may be directed to the attention of the Commission and its staff. The report of Ford, Bacon & Davis, Inc., covering the claim for restatement of plant has been filed with the Commission by the Respondent."

In further explanation of this suspension Mr. McKinstry, on cross-examination (Vol. XLVIII, pp. 6570, et seq.), stated that Mr. Lusk, in an exhibit introduced by the respondent through him, indicated these items should be capitalized, and that what he is doing here is calling the item to the attention of the Commission so that it would not be included both as capital and as an operating expense. Mr. McKinstry stated he was making no findings with respect to this particular item nor any recommendation.

Rate Case Expense

This is a 1939 item appearing on sheet 11 of Exhibit 168 involving $54,600.61. Mr. McKinstry's explanation on sheet 11 follows:

> "Respondent charged to expenses on its books amounts expended incident to rate case pending before the Commission. Examiner's reclassification entry R-139 transfers such expenses under the balance sheet caption 'Deferred Debits' as of December 31, 1939, for the purpose of suspending the items for such disposition as the Commission may prescribe. Analytical details of the expenses thus suspended are contained in Schedule A-12 which appears in the exhibit relating to the balance sheet as of December 31, 1939."

In further explanation of this item Mr. McKinstry testified as follows: (Vol. XLVIII, pp. 6571, 6572.)

Q. All right, Item E, which involves the suspension of the rate case expenses incurred by the company in the amount of $54,600.61.

A. That is correct.

Q. You are taking this out of the income statement account?

A. That is correct.

Q. It is more than a suspension, then, isn't it?

A. It is placed in the deferred debit section on the balance sheet.

Q. That is more than a suspension, isn't it?

A. Yes, and this merely has reference again to that amount which is deferred.

Q. Well, then, you have done something with it. That is, you have taken out that item as an operating expense and you have put it in the deferred debits on the balance sheet and you have flagged the whole business?

A. That is right.

Q. I assume you do that upon the theory that whatever our proper expenses may be in this rate proceeding they may be amortized over some period?

A. As determined by the Commission.

Q. Yes, as determined by the Commission. You aren't attempting to fix any rate or amortization?

A. No.

Federal Income Tax.

This suspension likewise appears on Sheet 11, Exhibit 168, in amounts as follows:

1937	$63,735.69
1938	68,434.88
1939	66,403.02

Mr. McKinstry's explanation on sheet 11 follows:

"Income taxes for the years 1937, 1938 and 1939, as adjusted, are suspended for the reason that the income received by the Respondent, and which constituted the basis for assessment of its income taxes, may, as a result of this proceeding, be found to have been in excess of a fair return. The Examiner recommends that expenses chargeable to the ratepayer include, with respect to income taxes, only such an amount as would represent the necessary taxes required to be paid based upon income which the Commission determines it is proper for the Respondent to earn."

Further explaining this suspension (Vol. XLVIII, pp. 6572, et seq.), Mr. McKinstry stated that these figures are the company's book figures as related to these particular years, but not as taken up on the books in those years. The books, however, disclose that these amounts were paid for these years and no adjustment changing the amount as related to any year has been made. Mr. McKinstry does not have in mind that the Commission would enter any order in this proceeding that would serve to take away from or add to the company's net income for these years 1937, 1938 and 1939, and the purpose of this suspension is to call this particular situation to the Commission's attention in any analysis of past revenues and operating expenses it may make for comparative purposes. He does not contemplate that by this suspension there would be any changes on the books of account of the company, and that same situation is true generally with respect to all the income accounts as kept by the company for these particular years which Mr. McKinstry has shown in this exhibit. To Mr. McKinstry's knowledge there is no order of the Commission outstanding at the present time which requires the company to reclassify and adjust these income accounts.

Substitution of Depreciation and 6% Return on Investment for Amortization of Debt Included in Payments Made by Canadian to Texoma Natural Gas Company in Connection with Joint Operation of the Fritch Gasoline Plant.

This is the item included in the adjustments and deductions from operating expenses in Exhibit 168 (sheet 95) which, by stipulation of counsel during the course of the hearing (Vol. XLVIII, pp. 6575-6577), was eliminated from the adjustment items and incorporated into the items suspended for the Commission's decision. This entry is explained by Mr. McKinstry on sheet 95, Exhibit 168, as follows:

"To adjust 1937, 1938 and 1939 charges for interest and amortization of debt made to Respondent by Texoma Natural Gas Company in connection with joint operation of latter's Fritch gasoline plant. Deprecia-

tion and 6% return on investment are substituted in this entry in place of interest and amortization in accordance with data supplied by the Chicago regional staff of the Division of Accounts as per schedules attached to letter of Mr. R. M. Lindsay, Examiner in Charge, Chicago region, to Mr. W. E. Baker, Chief Accountant, dated August 1, 1940, copy of which is attached hereto. Summary of adjustment follows:

Item	1939	1938	1937
Bond, amortization and interest	$29,044.49	$22,721.39	$24,907.52
Depreciation	$ 5,739.31	$ 5,654.45	$ 5,574.07
Return on investment	11,582.87	11,656.59	11,785.67
	$17,322.18	$17,311.04	$17,359.74
Net reduction	$11,722.31	$ 5,410.35	$ 7,547.78

Testifying further as to this entry (Vol. LXVIII, pp. 6512, et seq.), Mr. McKinstry stated that this entry is a reclassification of charges paid by the company to the Texoma Company representing interest and amortization of debt in the gasoline plant of the Texoma Company which is a part of the leased facilities of the Canadian Company. The Canadian leases a portion of the gasoline plant facilities of the Texoma Company located near Fritch and has an operating contract with the Texoma Company, a copy of which is set forth at pages 13-16, Exhibit 168. Mr. McKinstry testified that under that contract, as a part of the rental which the Canadian pays for the gasoline plant, there is included a portion of the interest and amortization of the debt of Texoma on that plant.

Section 6 of the October 15, 1935 operating contract between the Texoma Company and Canadian (pp. 13 and 14, Exhibit 168), provides, in part as follows:

"Section 6. Canadian River shall be charged by Texoma with certain proportions of the total cost of

operation and maintenance of, and interest and retirement charges on, said gasoline plant as follows:

* * * * *

"(b) Twenty-five per cent (25%) of the interest and of the sinking fund and/or other retirement charges on all bonds, notes or other indebtedness of Texoma from time to time outstanding, the proceeds of which have been invested in the said gasoline plant; provided, however, that in the event the said plant is abandoned on account of obsolscence or otherwise Canadian River shall pay to Texoma twenty-five per cent (25%) of the unamortized investment of Texoma in the said gasoline plant and Canadian River shall not thereafter be required to pay any additional amounts under this subdivision (b) with respect thereto."

Mr. McKinstry then testified (Vol. XLVIII, p. 6514), that in his Entry 182 he has not followed the contract, but has set up the account on an entirely different basis; that there is no intention on his part to establish some new contractual relation between the companies, but he is setting it up on what he considers a proper cost basis. He then stated (p. 6515) that the entire accounting by the Texoma Company for the operation of its gasoline plant and its subsequent settlement with Canadian is a part of the suspension that appears in Statement B4 abstracted above so that the entire settlement is subject to the findings in the investigation in which the Texoma Company is subject to now. Mr. McKinstry testified that the Canadian owns no part of these facilities and that he has set up his entry on the basis of a return to the Texoma Company on its investment at 6%; that this 6% is predicated upon information obtained from him through the Chicago regional staff (Vol. XLVIII, pp. 6516-6517), this information being contained in a letter dated August 1, 1940, from R. M. Lindsay, Examiner in charge of the Chicago region. There is no specific provision in the code guiding him in the making of this entry as he has done it. The basic consideration involves the cost included to represent decline in service value of the gasoline plant with the amounts themselves supplied by Mr. Lindsay, with the contract ignored. He has looked at the matter purely from an accounting stand-

point as to the determination of cost, and not from the standpoint of the contract provisions (p. 6522).

Again (Vol. XLVIII, pp. 6526, et seq.), Mr. McKinstry restated that he had substituted a new method of computing cost from that contained in the contract by substituting depreciation for amortization provided for in the contract.

Mr. McKinstry did not determine the depreciation rate used in his computation nor the 6% return on investment rate, but adopted someone else's figures (p. 6528). He has not examined the records of the Texoma Company. His whole calculation has been made and determined by persons other than himself (p. 6530) in another proceeding which is now pending before the Commission, and there is no evidence in this proceeding on that subject. His idea of making this adjustment originated with himself.

On redirect examination (XLVIII, pp. 6575, et seq.), Mr. McKinstry stated that the principles involved in this adjustment or suspension would have been recognized, notwithstanding receipt of the basic information from the Commission's Chicago regional office, and that this suspension could have been made without having to rely upon the information alone received from the Chicago office. As above pointed out, it was then stipulated (pp. 6576, 6577) that this entry should be suspended for consideration of the Commission.

Mr. McKinstry also prepared and submitted Commission Exhibit 169, "Balance Sheet of Canadian River Gas Company," and in connection therewith testified as follows: (Vol. XLVIII, pp. 6580-6585.)

A. "This report consists of a balance sheet of the Canadian River Gas Company as at December 31, 1939, and six supporting schedules.

"Statement A-1 shows the balance sheet per the company's books, reclassifications and adjustments of items contained in it, which were made by the Examiner, and the balance sheet as adjusted. The six schedules include one that summarizes the Examiner's reclassification and adjustment entries, one that nets amounts receivable from

and amounts payable to associated companies, one that shows the Examiner's analysis of the 1939 rate case expenses, which have been transferred to Deferred Debits, and three that support and explain other items on the balance sheet, namely, Deferred Debits—Others, long-term debt, and surplus.

"The first schedule, A-10, shows the Examiner's adjustments and reclassifications in summary form and their application to the various balance sheet items affected; it gives a brief description of each entry and designates it by number. The entries, themselves, are not given in this exhibit, with the exception of Entry No. R-1 shown in Schedule A-11, but are to be found in other accounting studies, prepared by members of the Federal Power Commission staff, which will be offered in evidence in this case.

"Entries in the '100' series are shown in Schedule B-16 of the study entitled 'Income Accounts and Supplemental Data, Including Examiner's Reclassifications of Adjustments;' entries in the '200' series are shown in the study entitled 'Gas Plant Accounts and Examiner's Adjustments:' and entries in the '400' series are shown in the study entitled 'Annual and Accrued Depletion and Depreciation of Gas Plant and Examiner's Adjustments.'

"The reclassification and adjustment debits and credits made against Balance Sheet Accounts on Statement A-1 are the footings of the columns in Schedule A-10, each of which columns represents a balance sheet account and contains all the debit or credit entries affecting the account it represents.

"Schedule A-11, which is Adjustment Entry No. R-1, is a tabulation showing the balances receivable from each associated company offset against the balances payable to each of these companies, and vice versa. This schedule was prepared for the purpose of developing for the balance sheet the net amounts receivable from and payable to associated companies.

"Schedule A-12 is an analysis of 1939 rate case expenses amounting to $54,600.61. These expenses are carried in the balance sheet as a deferred debit. In addition to showing the nature of each rate case expense item, this schedule also

shows the account to which the items were charged by the company. They were all transferred to the balance sheet account 'Other Deferred Debits' by Examiner's Entry No. R-139 and the total amount of them represents Expenses Suspended for Further Consideration of the Commission (cf. Statement B4 of Report on Canadian River Gas Company Income Accounts).

"Included in the total is $23,790.97 representing the cost of a valuation report and a physical inspection of the Respondent's properties made by and under the direction of Ford, Bacon & Davis, Inc., Consulting Engineers. This firm billed for its work at cost of services, plus ten per cent, plus overheads of approximately 75 per cent, and plus expenses at cost.

"Schedule A-13 sets forth the particulars of the account 'Deferred Debits—Other,' shown on the adjusted balance sheet at December 31, 1939, in the amount of $34,519.70. The amount which is classified on the company's books as a memorandum account, only, represents revenue receivable in the future from Amarillo Oil Company, pursuant to terms of sales contracts with that company, which are explained in this schedule. The adjustment necessary to place this item on the balance sheet was made in Examiner's Entry No. 133 The books show that as of August 31, 1940, the balance in the Deferred Debit Account was $14,151.25, or $20,368.45 less than the balance on December 31, 1939.

"Schedule A-14 shows the total amount of the company's twenty-year bonds, dated June 1, 1928, that have been issued, the amount of them that have been redeemed, and the balance of them outstanding on December 31, 1939. It also shows the amount of its promissory notes outstanding.

"All the long-term debt, both bonds and notes, has been issued to and is held by Colorado Interstate Gas Company. The bonds were issued during 1928 and 1929 at 100 in the total principal amount of $11,000,000, and bear interest at six per cent per annum. From 1930 to 1939, inclusive, $5,943,000 of them in principal amount have been redeemed, leaving outstanding as at December 31, 1939, $5,057,000. Bonds are redeemable at a premium, semi-annually, to June 1, 1948.

"The notes payable have been issued from month to month since 1928 to finance current construction after the exhaustion of the funds provided by the sale of bonds; they bear interest at the rate of six per cent per annum. Each note is payable in equal monthly instalments over a period not to exceed 120 months nor to extend beyond May 31, 1948, whichever is the shorter period.

"Schedule A-15 shows forty-two Examiner's adjustments and reclassifications of the Surplus Account that increase the balance of that account, as of December 31, 1939, from $3,609,943.09 to $5,826,298.70. These entries are the same as these shown in Column 17 of Schedule A-10. They are reproduced in Schedule A-15, so that they may be more conveniently referred to, and to provide a reconciliation of the balance of the Surplus Account, per books, with the balance as adjusted by the Examiner."

Q. Mr. McKinstry, in the preparation of this Exhibit No. 169, you had available for your inspection the books and records of the Canadian River Gas Company?

A. I did.

Q. And what records did you use in the preparation of this exhibit with reference to the Canadian River Gas Company?

A. You mean in respect to the company's records?

Q. Yes.

A. Or referring to our—

Q. No, the company's—in other words, you got your figures from the company's books and records and then whatever adjustments you had to make, you of course made them?

A. That is correct.

Q. And after the exhibit—or, rather, after the basic material had been gathered by you for the preparation of this exhibit and before it was finally reproduced, I will ask you whether on the title page there appears the signatures of Mr. Kenneth L. Smith in charge of field assignment; Mr. Harold L. Tomlin, Examiner in charge of regional office, and Mr. Charles W. Smith, chief, Bureau of Accounts finance and rates; is that correct?

A. That's right.

Q. And all of those men are presently connected with the Federal Power Commission in those capacities?

A. That is right.

Q. And were at the time they affixed their signatures to that page?

* * * * *

On cross-examination MR. MCKINSTRY further testified: (Vol. XLVIII, pp. 6586-6590.)

A. It is. That is, to the point of summarization in a large part from other exhibits.

Q. And with the exception of one reclassification entry which you have put in here, the balance sheet as you have constructed it here represents merely a recapitulation of the work done in Exhibit No. 168?

A. And as affected by the previous exhibit, I believe, on the utility plant accounts.

Q. Yes, I should have included Exhibit 146.

A. And one exhibit on the reserves for depreciation and depletion.

Q. Yes. Now, turn to Page 2 of Exhibit 169. Go down—which is the liability side of the balance sheet—

A. That is correct.

Q. Go down to Line 27 and you have an item there that is designated "Taxes Accrued", $549.55. To shorten it up I'll tell you that it is my information that that particular item is not accrued taxes but represents old age benefits payments made by employees and held by the company temporarily. Is that your understanding?

A. That is. Of course, that is a social security tax.

Q. But it is not a company tax?

A. That is true. It is not a company tax. It still is a tax accrued for and on behalf of the employes that has been collected by the company.

Q. Yes, but as to the employes, it is an accrued tax, but as to the company it is something that they owe the employes until it is paid, is it not?

A. Well, I believe the amount has been deducted from the—well, I won't go into the exact details.

Q. It is not a very large amount and I think we are agreed on what it is.

A. Yes, it is a social security tax.

Q. I wanted to ask you this question: This Entry No.

182 as set forth in Exhibit 168 is carried over into this balance sheet?

A. No, it is not.

Q. Can we leave it this way, Mr. McKinstry, if you feel it necessary to do so, please check that and if you find it carried over we ought to make some stipulation.

A. I can very definitely say that it does not.

Q. All right. Pages 3, 4 and 5 of Exhibit 169 carrying summary schedules of all of the reclassification and adjustment entries have been applied to this balance sheet?

A. That is correct.

Q. On Page 6 you have an Entry No. R-1. I assume the only purpose of that is to net the amount that may be a debit or a credit as between associated companies?

A. That is true.

Q. The company, perhaps on its books now or on its balance sheet perhaps has not netted those figures?

A. No, they have a receivable and a payable. They have each of those accounts shown whereas I have netted the respective balances to the one total.

Q. All right, Schedule A-11 on Pages 7 and 8, what is the purpose of that, Mr. McKinstry?

A. That is merely to give the detail of the entry of the one just referred to showing the balances per books, both receivable and payable and showing reclassifications of the respective balances.

Q. I think I mis-described that. I was talking about Schedule 8—no—yes, I should have said Pages 6 and 7 instead of 7 and 8 as I did.

A. Oh, yes.

Q. All right, now, we come to Schedule A-12 which consists of five pages commencing on Page 8, and that is an analysis of the '39 rate expenses which you have transferred to other deferred debits as of December 31, 1939 and also suspended?

A. That is correct.

Q. In Exhibit No. 168.

A. Yes.

Q. Now, these are the rate expenditures as you found them on the books for the year 1939, Mr. McKinstry?

A. I believe that there have been some slight changes from—these are all shown per the books, although we have made some slight reclassifications, I believe.

Q. Those are rather inconsequential?

A. They are not of major proportions.

Q. Now, the classification of these suspensions as you have shown in Columns 6 to 12, inclusive, is that your classification?

A. That is, yes.

Q. You classified them and distributed them from the information appearing on the voucher, I presume?

A. That is right—endeavored to do so.

Q. Now turn to Page 13, your Schedule A-13, the second paragraph commencing on Page that starts off this way:

"The original sales contract with Amarillo Oil Company, dated June 3, 1928." I believe that date you have there is a typographical error and I believe perhaps you or counsel will want to correct it.

A. It should be January 3, 1928.

Mr. Lange: It should be January 3, 1928 instead of June.

The Trial Examiner: Do you wish to make that correction in your exhibit?

The Witness: Yes, I do.

The Trial Examiner: Very well, the reporter will be directed to physically make such correction.

By Mr. Spencer:

Q. Your Schedule A-15 commencing on Page 15 merely is a reconciliation of earned surplus per books as reclassified and as adjusted?

A. That is correct.

Q. Which I presume makes the balance sheet complete in any event?

A. That is true.

Said Exhibit 169 is in part as follows:

3521

Exhibit No. 169

CANADIAN RIVER GAS COMPANY
BALANCE SHEET
DECEMBER 31, 1939

Line No.	Assets and Other Debits (1)	Per Books (2)	Examiner's Reclassifications and Adjustments Debit (3)	Examiner's Reclassifications and Adjustments Credit (4)	As Adjusted (5)
	Utility Plant				
1	Gas plant in service	$14,519,788.71	$ 846,372.66	$5,442,831.43	$ 9,923,329.94
2	Construction work in progress	150,582.36			150,582.36
3	Gas plant held for future use		80,952.45		80,952.45
4	Gas plant adjustments		4,561,250.22	469,369.34	4,091,880.88
5	Total Utility Plant	$14,670,371.07	$5,488,575.33	$5,912,200.77	$14,246,745.63
	Investment and Fund Accounts -				
6	Other physical property		$ 1,176.34		$ 1,176.34
	Current and Accrued Assets				
7	Cash	$ 9,517.29			$ 9,517.29
8	Special deposits	266.82			266.82
9	Working funds	1,492.36			1,492.36
10	Notes receivable (all from employees)	365.00			365.00
11	Accounts receivable from others, excluding associated companies	5,61 .31			5,617.31
12	Receivables from associated companies	676,721.85	$ 37,106.00	$ 669,909.99	43,917.86
	Materials and supplies				
13	Held for use in gas business	87,607.67		155.38	87,452.29
14	Gasoline held for sale	3,484.62			3,484.62
15	Prepayments	524.50	3,920.90		4,445.40
16	Total Current and Accrued Assets	$ 785,59 .42	$ 41,026.90	$ 670,065.37	$ 156,558.95
	Deferred Debits				
17	Rate case expenses (Schedule A-12)		$ 54,600.61		$ 54,600.61
18	Other (Schedule A-13)		34,519.70		34,519.70
19			$ 89,120.31		$ 89,120.31
20	Total Assets and Other Debits	$15,455,968.49	$5,619,898.88	$6,582,266.14	$14,493,601.23

3523

Exhibit No. 169

CANADIAN RIVER GAS COMPANY
BALANCE SHEET
DECEMBER 31, 1939

Line No.	Liabilities and Other Credits (1)	Per Books (2)	Examiner's Reclassifications and Adjustments: Debit (3)	Examiner's Reclassifications and Adjustments: Credit (4)	As Adjusted (5)
21	Capital Stock - Common capital stock 25,000 shares, no par value (all issued to Southwestern Development Company)	$ 1.00			$ 1.00
	Long-Term Debt (All payable to Colorado Interstate Gas Co.)				
22	First Mortgage and Collateral Trust Twenty Year Six Per Cent Sinking Fund Gold Bonds, due June 1, 1948	$ 5,057,000.00			$ 5,057,000.00
23	Advances	1,348,254.14			1,348,254.14
24	Total Long-Term Debt (Schedule A-14)	$ 6,405,254.14			$ 6,405,254.14
	Current and Accrued Liabilities				
25	Accounts payable to other than associated companies	$ 134,256.95			$ 134,256.95
26	Payables to associated companies	860,344.62	$ 669,909.99	$ 81,603.18	272,037.81
27	Taxes accrued	549.55		80,742.27	81,291.82
28	Other current and accrued liabilities	1,720.60		9,376.93	11,097.53
29	Total Current and Accrued Liabilities	$ 996,871.72	$ 669,909.99	$ 171,722.38	$ 498,684.11
	Reserves				
30	Reserve for depreciation of gas plant Note (1)	$ 2,955,528.47	$3,236,309.29	$1,718,177.52	$ 1,437,396.70
31	Reserve for amortization and depletion of producing natural gas land and land rights Note (2)	1,488,370.07	1,566,562.70	404,159.21	325,966.58
32	Total Reserves	$ 4,443,898.54	$4,802,871.99	$2,122,336.73	$ 1,763,363.28
33	Earned Surplus (Schedule A-15)	$ 3,609,943.09	$3,293,587.58	$5,509,943.19	$ 5,826,298.70
34	Total Liabilities and Other Credits	$15,455,968.49	$8,766,369.56	$7,804,002.30	$14,493,601.23

Notes:

(1) Amount in column 5 includes $2,339.96 applicable to gas plant held for future use.
(2) Amount in column 5 includes $1,423.16 applicable to natural gas land and land rights held for future use.

2

Exhibit No. 169

Docket G-124

Schedule A-11
Sheet 1 of 2

6

CANADIAN RIVER GAS COMPANY
EXAMINER'S RECLASSIFICATION AND ADJUSTMENT ENTRIES
RELATING TO THE BALANCE SHEET

Particulars	Debit	Credit
No. R-1		
Payables to Associated Companies:		
Texoma Natural Gas Company	$ 28,630.08	
Amarillo Oil Company	2,287.75	
Sinclair Prairie Oil Company	65.41	
Colorado Interstate Gas Company	638,920.99	
Dalhart Gas Company	5.76	
Receivables from Associated Companies:		
Texoma Natural Gas Company		$ 28,630.08
Amarillo Oil Company		2,287.75
Sinclair Prairie Oil Company		65.41
Colorado Interstate Gas Company		638,920.99
Dalhart Gas Company		5.76
	$669,909.99	$669,909.99

With respect to balances as of December 31, 1939 with associated companies, (1) to apply against balance receivable the balance payable when latter balance is less than that of the former, (2) to apply against balance payable the balance receivable when latter balance is less than that of the former. Summary of net balances follows on sheet 2 of this schedule.

Exhibit No. 169

ocket G-124

Schedule A-13
Sheet 1 of 1

CANADIAN RIVER GAS COMPANY
DEFERRED DEBITS - OTHER
DECEMBER 31, 1939

13

The entire amount hereunder relates to the prospective sum coverable from Amarillo Oil Company on billings for natural gas livered to that company since July 1, 1931 through December 31, 1939.

The original sales contract with Amarillo Oil Company, dated 3, 1928, provides that deliveries of natural gas will be settled on a rate per MCF ascertained in accordance with provisions stipulated the aforementioned contract. By a supplemental agreement dated ly 1, 1931, natural gas sold to Amarillo Oil Company and in turn livered to facilities of Panhandle Pipe Line Company, is billed at cents per MCF rather than at the ascertained rate developed under the iginal contract of sale. On these particular deliveries the 4½ cent te per MCF is to apply until such time as this rate shall have enabled e Respondent to recover the deficiency in billing which occurs when e ascertained rate exceeds the revised rate of 4½ cents per MCF. The pplemental agreement provides that when the entire deficiency in lling has been offset, the supplemental agreement will be rendered rmanently inoperative and the rate ascertained in accordance with the iginal contract of sale will apply to all subsequent billings.

From July 1, 1931 and continuing through the year 1935, the certained rate was in excess of 4½ cents per MCF, and subsequent ereto the ascertained rate has been less than 4½ cents per MCF. The ount of $34,519.70 set up as a deferred debit in Examiner's entry . 133 represents the portion of the deficiency in billing during the riod July 1, 1931 to the end of 1935 which had not been offset as of cember 31, 1939, detailed below by periods:

	Amount of Annual Excess		Cumulative Amount -
d of Year	Ascertained Rate over 4½ Cent Rate	4½ Cent Rate over Ascertained Rate	Excess of Ascertained Rate over 4½ Cent Rate
1931	$22,939.11		$ 22,939.11
1932	39,582.77		62,521.88
1933	30,958.00		93,479.88
1934	26,616.56		120,096.44
1935	11,469.13		131,565.57
1936		$14,254.08	117,311.49
1937		29,903.86	87,407.63
1938		26,076.03	61,331.60
1939		26,811.90	34,519.70

CANADIAN RIVER GAS COMPANY
LONG-TERM DEBT
DECEMBER 31, 1939

First Mortgage and Collateral Trust Twenty Year Six Per Cent Sinking Fund Gold Bonds due June 1, 1948: (Note 1)

Date of Issue (At Par)		Principal Amount
June 27, 1928		$ 8,470,000.00
Dec. 3, 1928		740,000.00
Dec. 30, 1929		1,790,000.00
Total issued		$11,000,000.00
Principal amount redeemed between June 1, 1930 and December 31, 1939		5,943,000.00
Balance outstanding December 31, 1939	(Note 2)	$ 5,057,000.00

Promissory Notes (Note 1) 1,348,254.14

These notes have been issued from time to time to finance current construction after the exhaustion of the funds obtained from the sale of bonds. The notes are redeemable in equal monthly installments over a period of 120 months from date of issuance or by May 31, 1948, whichever is the shorter period. The notes bear interest at the rate of 6% per annum, payable semiannually on January 1 and July 1.

Total Long-Term Debt $ 6,405,254.14

Notes:

(1) All issued to and outstanding amount held by Colorado Interstate Gas Company.

(2) Semiannual provisions to a sinking fund are to be made to permit redemption of annual principal amounts as follows:

Year	Principal Amount
1940	$ 594,000.00
1941	595,000.00
1942	594,000.00
1943	592,000.00
1944	595,000.00
1945	594,000.00
1946	595,000.00
1947	594,000.00
1948	304,000.00
	$5,057,000.00

3531

Exhibit No. 169

CANADIAN RIVER GAS COMPANY

RECONCILIATION OF EARNED SURPLUS PER BOOKS, AS RECLASSIFIED AND AS ADJUSTED

DECEMBER 31, 1939

Line No.	Examiner's Entry No. (1)	Description (2)	Debit (3)	Credit (4)
1		Balance per (Respondent's) books		$3,609,943.09
		Examiner's reclassification entries affecting earned surplus		
	R-104	To accrue amount receivable from Texoma Natural Gas Company for 1939 joint operation of Fritch gasoline plant		
2				27,106.00
	R-106	To accrue gasoline royalties applicable to joint operation of Fritch gasoline plant		
3			$ 4,460.75	
4	R-121	To set up prepayments of delay rentals		2,632.09
5	R-125	To accrue unpaid Federal income tax	68,855.64	
6	R-126	To accrue unpaid Federal capital stock tax	2,895.00	
7	R-134	To accrue unpaid Federal old age benefit tax	543.81	
8	R-135	To accrue unpaid Federal unemployment tax	770.48	
9	R-136	To accrue unpaid State ad valorem taxes	7,476.43	
10	R-137	To accrue unpaid State unemployment taxes	713.30	
	R-139	To defer rate case expenses for consideration of the Commission		
11				54,600.61
12	R-167	To set up prepayments of gas well royalties		1,288.81
13	R-168	To accrue unpaid gas well royalties	4,926.18	
14	R-169	To accrue unpaid interest on long-term debt	25,285.00	
	R-171	To accrue unpaid interest on current account and notes payable to Colorado Interstate Gas Company		
15			55,805.79	
16			$ 171,722.38	$3,[illegible],570.60
17				171,722.38
18		Balance reclassified		$3,5[illegible].22
		Examiner's adjustment entries affecting earned surplus		
19	133	To restate billings to Amarillo Oil Company		34,519.70
	170	To remove differences in physical inventories included in materials and supplies		
20			$ 155.38	
21	201	Elimination of delay rentals from lease costs	151,591.23	
	204	Adjustment to reflect profit from sale of Cliffside property to U. S. Government		
22			782,082.67	
23	205	do.		498,208.84
24	207	do.	28,327.24	
25	208	do.		4,399.73
26	209	do.		4,722.50
27	210	do.		2,539.62
28	216	Adjusting appreciation on abandoned leases		25,005.75
29	217	Adjusting appreciation on Ingerton lease No. 27 sold in 1935		34,595.00
	218	Adjusting for Parcomis Oil & Gas Co. interest in Ingerton lease, No. 27		
30				7,875.00
	219	Adjusting notes receivable obtained in sale of Ingerton lease No. 27		
31			124.44	
32	242	Eliminating duplicate charge to utility plant for pipe	690.42	
33	245	Adjusting telephone right of way	235.00	
34	248	Adjusting interest during construction	81,250.00	

Docket G-124

Schedule A-15
Sheet 2 of 2

3533

Exhibit No. 169

16

CANADIAN RIVER GAS COMPANY

RECONCILIATION OF EARNED SURPLUS PER BOOKS, AS RECLASSIFIED AND AS ADJUSTED

DECEMBER 31, 1939

Line No.	Examiner's Entry No. (1)	Description (2)	Debit (3)	Credit (4)
35	250-A	Reallocation of Clayton lateral overheads	$ 10,233.36	
36	400	To reverse depreciation and depletion accrued on Ingerton lease, No. 27, and wells	61,290.54	
37	401	To apply net loss on retirement of Ingerton lease, No. 27 and wells, to reserves		$ 51,374.07
38	402	To reverse erroneous charges to reserve for depletion	5,725.24	
39	403	To eliminate charges to reserve for depletion covering abandoned leases	37,950.32	
40	404	To reverse Respondent's total accruals in reserve for depletion		1,549,089.05
41	405	To set up revision of reserve for depletion of operated acreage	110,241.42	
42	406	To set up revision of reserve for depletion of intangible well costs	172,929.56	
43	407	To reverse Respondent's total accruals in reserve for depreciation		3,098,285.02
44	408	To set up revision of reserve for depreciation of gas plant	1,679,038.38	
45	411	To set up revision of reserve for depreciation applicable to Clayton lateral		3,532.73
46	412	To transfer to reserve for depreciation profit and loss on retirement of utility plant		100,168.67
47			$3,121,865.20	$8,948,163.90
48				3,121,865.20
49		Balance Adjusted		$5,826,298.70

MR. MCKINSTRY also prepared and submitted Commission Exhibit 175, "Comparison of Operations of Canadian River Gas Company for Nine Months Ended September 30, 1940," and "Balance Sheet as of September 30, 1940." With reference thereto MR. MCKINSTRY testified as follows: (Vol. XLIX, pp. 6813-6819.)

Q. Mr. McKinstry, did you in connection with the preparation of this Exhibit 175 also prepare a written statement setting forth in summarized form the principal items of the exhibit?

A. I did.

Q. Will you please read that statement into the record?

A. "The principal purposes of this exhibit, which relates to Canadian River Gas Company, are to present (1) a comparison of operations for the two nine-months periods ended September 30, 1940, and 1939, respectively; (2) the amount of expenditures incurred in connection with this proceeding, up to September 30, 1940; and (3) the changes in the investment in gas plant in service for the nine months ended September 30, 1940.

"The schedules comprising this exhibit are as follows:

"Schedule No. 1 Balance Sheet, as reclassified, September 30, 1940.

"Schedule No. 2 Gas plant in service, September 30, 1940.

"Schedule No. 3 Deferred debits—rate case expenses, September 30, 1940.

"Schedule No. 4 Statement of income and surplus accounts as reclassified for the nine months ended September 30, 1940, and 1939, and comparison.

"Schedule No. 5 Statement of operating revenues for the nine months ended September 30, 1940, and 1939, and comparison.

"Schedule No. 6 Summary of operating expenses as reclassified for the nine months ended September 30, 1940, and 1939, and comparison.

"The figures used in this exhibit are as shown by the company's books, as at the dates stated in the schedules. Only two reclassifications have been made: rate case expenses have been transferred from the income account to

the balance sheet, in order to classify them as deferred charges, and certain operating and non-operating expenses have been transferred from work in progress to the earned surplus account.

"Financial.

"Schedule No. 1, the balance sheet at September 30, 1940, reflects the balances as shown by the books except for the reclassifications explained above.

"Schedule No. 2 shows in summary form by accounts, additions to and retirements of gas plant in service and gasoline plant in service during the nine months ended September 30, 1940, which principally are as follows:"

Mr. Lange: You may just copy that into the record as a table, Mr. Reporter?

The Trial Examiner: Yes, it may be copied.

(At the direction of the Trial Examiner, the following table was copied into the record:)

Gas Wells	
211 Gas Well Equipment—Intangible	$14,574.33
212 Gas Well Equipment—Tangible	8,260.58
	$22,834.91
Main Compressor Stations	
Dalhart Station:	
218-C Land	429.87
221-C Structures	25,174.06
223-C Other Structures	10,932.81
224-C Equipment	187,489.07
	$224,025.81

The Witness: "The additions to main compressor stations account represent the construction and installation new of a compressing station and equipment, and bring the number of 600 H.P. Clark compressor units that the company has in service to five.

"Results of Operation.

"Net utility income for the nine months ended September 30, 1940, as shown on Schedule No. 4, is greater than net utility income for the nine months ended September 30,

1939, by $116,136.98. This increase is accounted for as follows:"

Mr. Lange: And may we have that table copied also?

The Trial Examiner: Yes.

(At the direction of the Trial Examiner, the following table was copied into the record:)

	Increase (Decrease) 1940 over 1939
Operating Revenues	$110,230.19
Operating Revenue Deductions:	
Operating expenses	$ 26,077.58
Depreciation	1,919.32
Depletion	4,385.29
(Profit) on plant retirements	(3,498.38)
Taxes	(16,779.81)
Total	$ 12,104.00
Net Operating Revenues	98,126.19
Exploration and Development Costs:	
Delay rentals	$ 12,155.91
Nonproductive well drilling	(30,166.70)
Total	$(18,010.79)
Net Utility Income	$116,136.98

The Witness: "Schedule No. 5 shows the increase of $110,230.19 in operating revenues by sub-classifications.

"Schedule No. 6 sets forth the increase of $26,077.58 in operating expenses by accounts. This increase consists chiefly of increases in gas well royalties.

"Taxes are less in 1940 chiefly because of the fact that in 1939 Texas advalorem taxes were paid in advance but in 1940 have not been.

"The decrease in nonproductive well drilling expense shown as $30,166.70, represents the entire amount expended in 1939; during the first nine months of 1940, $48,935.68 was similarly expended, but is classified by the company as profit

and loss suspense in Subschedule No. 6-1 and was not reclassified for the purpose of this exhibit.

"Miscellaneous nonoperating revenues classified under other income in schedule 14, line 16, is $83,624.65, less for the 1940 period than for comparable period of 1939. The decrease is due principally to the fact that the price per gallon realized from the sale of gasoline extracted from natural gas dropped approximately fifty per cent in 1940 below the 1939 price."

By Mr. Lange:

Q. Mr. McKinstry, in the preparation of this exhibit—strike that.

Does this exhibit reflect the figures as per company's books?

A. They are all according to the company's books.

Q. Were there any adjustments that appear on any figures that were obtained by you from those figures that appear in this exhibit?

A. The grouping perhaps does not correspond with the balances as shown on the company's books, nevertheless, they are based upon the book balances without any adjustment.

Q. Without any adjustment?

A. That is true.

Q. You haven't made any, nor does this exhibit attempt to reflect any adjusted figures?

A. That is correct.

Q. But it is intended as a comparison to reflect the actual book figures of the company for those two operating nine-months periods?

A. That is right.

Q. Oh, yes, is there a reclassification anywhere in the exhibit?

A. Yes, there is.

Q. Will you point it out, please?

A. Page 1 which is Schedule No. 1, Line 3, "Construction work in progress" has been reclassified taking from it the amounts which the books contain relating to operating expenses as of September 30, 1940, and we have also treated the nine months ended 1939 in a similar fashion.

Q. Where is that shown? Doesn't the note on Page 2.

Note 2—or, rather, Note 1—Note 1 and Note 2 on Page 2 cover the reclassification that you have made?

A. No, the Note 1 only relates to the period ending September 1940—September 30th, 1940.

Q. And what does Note 2 refer to?

A. That is another reclassification which appears on Line 10.

Q. Of Page 1?

A. Of Page 1. That total amount is taken from the earned surplus account and placed in this balance sheet.

Q. That is the item identified as rate case expenses?

A. That is correct.

Q. With the Note 2 referring to it?

A. That is correct.

Q. Note 2 appearing on Page 2?

A. That is correct.

Q. Are there any other reclassifications in the exhibit, Mr. McKinstry?

A. No, those are the only two.

Q. And you have previously stated that you made no adjustments?

A. No adjustments.

* * * * *

On cross-examination Mr. McKinstry testified as follows: (Vol. L, pp. 6835-6840.)

Q. Mr. McKinstry, on Friday afternoon you submitted your Exhibit No. 175 which generally shows the comparison of operations of the Canadian River Gas Company for two 9-months periods ending September 30, 1940 and 1939, respectively?

A. That is correct.

Q. As I recall your direct testimony with reference to that exhibit and also as indicated in your written statement, the figures shown in your balance sheet are book figures with the exception of two reclassifications which you have made?

A. That is correct.

Q. The first reclassification involves the transfer of rate case expense from the income account to the balance sheet in the form of a deferred debit?

A. Yes.

Q. You have taken that out, as I think was developed in a previous exhibit which you had for Canadian River?

A. Yes.

Q. So what you do here is merely to give effect on the balance sheet to what you did generally in your exhibit with respect to the income accounts of Canadian River?

A. Except to merely take the book figures only without any adjustment or major reclassification.

Q. Now, your written statement indicates that the second reclassification involves certain operating and non-operating expenses which have been transferred from work orders to work in progress to the earned surplus account?

A. That is correct.

Q. Now take your balance sheet as reclassified on September 30, 1940 which is on Page 1, Schedule No. 1, and indicate to me on the balance sheet where your second reclassification appears.

A. On Line 3, construction work in progress, the amount of $44,495.90 which is the amount remaining after we have removed $7,578.84 from it as indicated in Note 1 on Page 2 of Schedule No. 1.

Q. Yes. Now, in order to arrive at the figures shown in Line 3, Sheet 1 of Schedule No. 1, you had to make some reclassification between expense items and capital items, did you not?

A. Yes.

Q. And you used your own judgment in that regard?

A. The amounts were taken from the individual work order sheets in the work in progress ledger at Colorado Springs.

Q. Yes, I understand the amounts are the book amounts, but the classification of those amounts had been made by you as between expense and capital, is that not correct?

A. I believe the classifications are indicated on the work orders.

Q. Well, do you any place in this exhibit show the breakdown as between expense items and capital items in the work orders which you have involved in this reclassification?

A. It merely shows the amount which has been reclassified only.

Q. Well, would it be correct to say, then, that your classification of the various expenditures contained in the work orders which you mention here has been taken by you as indicated on the voucher?

A. No, as indicated—

Q. On the work order?

A. On the work order. I believe the work order ledger sheet has an indicated classification between expense and the expenditures for plant.

Q. In any event, what you attempted to do was to take the company's classification of those expenditures rather than to exercise your own judgment?

A. That is correct.

Q. I take it that one of the primary purposes of this exhibit as you have indicated in your written statement is to show a comparison of operations for the last two nine-month periods?

A. That is correct.

Q. Do you think that such a comparison can be best obtained by using a nine-months period rather than a twelve-months period ending on the date you want to use?

A. This happened to be the latest data we were able to assemble and get together for an exhibit. It is true that the more complete the period the more indicative and the more reliable is the information in comparative form with other annual periods.

Q. Well, you could have taken the twelve-months period in each instance preceding September 30th instead of the nine-months period, is that not right?

A. Taken twelve months ending—

Q. Yes.

A. That, of course, is something that could have been used, true enough.

Q. And in that event you would have had a full year's operations rather than nine months?

A. That is correct.

Q. And I believe you have indicated that for the purpose of comparison the full year would be preferable to nine months?

A. When I referred to that, it would be the twelve months of 1940 if it was all available.

Q. Yes. Now, for the purpose of comparison I take it

you have not included here any, information that might show the differences in degree day deficiencies during these periods in the principal markets to which this gas of Canadian River Gas Company is transported and sold?

A. Will you repeat the question, please?

(The question referred to was read by the reporter as set forth above.)

The Witness: No, I have not.

By Mr. Spencer:

Q. Degree day deficiencies would have some bearing on the two periods for comparative purposes, would it not?

A. Well, as far as I am concerned, I am merely taking the factual information and comparing the two together.

Q. Well, then, is your answer that you do not know whether it would or not?

A. Well, I would say that it would, knowingly.

Exhibit 175, in part, is as follows:

3543-3545

Exhibit No. 175

Docket G-124

Schedule No. 1
Sheet 1 of 2

CANADIAN RIVER GAS COMPANY
BALANCE SHEET, AS RECLASSIFIED
SEPTEMBER 30, 1940

1

Line No.		
	Assets and Other Debits	
	Utility Plant	
1	Gas plant in service (Schedule No. 2)	$14,438,053.69
2	Gasoline plant in service (Schedule No. 2)	349,451.24
3	Construction work in progress (Note 1)	44,495.90
4	Total Utility Plant	$14,832,000.83
	Current and Accrued Assets	
5	Cash	$ 19,570.98
6	Notes receivable	305.00
7	Accounts receivable	183,649.12
8	Materials and supplies	98,308.71
9	Total Current and Accrued Assets	$ 301,833.81
	Deferred Debits	
10	Rate case expenses (Note 2) (Schedule No. 3)	$ 119,564.00
11	Other	3,151.58
12	Total Deferred Debits	$ 122,715.58
13	Total Assets and Other Debits	$15,256,550.22
	Liabilities and Other Credits	
14	Capital Stock - common capital stock 25,000 shares, no par value (all issued to Southwestern Development Company)	$ 1.00
	Long-term Debt (all payable to Colorado Interstate Gas Co.)	
15	First Mortgage and Collateral Trust Twenty Years Six Per Cent Sinking Fund Gold Bonds, due June 1, 1948	$ 4,760,000.00
16	Advances covered by promissory notes	1,401,133.38
17	Total Long-term Debt	$ 6,161,133.38
	Current and Accrued Liabilities	
18	Vouchers payable	$ 63,875.47
19	Accounts payable	356,671.00
20	Accrued liabilities	161.88
21	Total Current and Accrued Liabilities	$ 420,708.35
	Reserves	
22	Reserve for depletion	$ 1,725,481.02
23	Reserve for depreciation	3,148,898.06
24	Total Reserves	$ 4,874,379.08
25	Earned Surplus (Note 1 and 2)	$ 3,800,328.41
26	Total Liabilities and Other Credits	$15,256,550.22

Notes: (1) After reclassifying to Earned Surplus, operating and nonoperating deductions included in work in progress:

Total per books	$52,074.74
Total per this schedule	44,495.90
Total reclassified (see footnote Schedule No. 4)	$ 7,578.84

(2) The amounts shown under caption, "Deferred Debits - rate case expenses", are derived by reclassification from Earned Surplus as shown in footnote of Schedule No. 4:

Accumulated rate case expenses for the year 1939 as shown in Schedule A-12 of Exhibit on Balance Sheet and Supplemental Data	$ 54,600.61
Accumulated rate case expenses for nine months ended September 30, 1940	64,963.39
Total	$119,564.00

3547

Exhibit No. 175

3

Schedule No. 2
Sheet 1 of 3

CANADIAN RIVER GAS COMPANY
GAS PLANT IN SERVICE
SEPTEMBER 30, 1940

	Particulars	Per Books: Balance Jan. 1, 1940	Additions	Retirements	Balance Sept. 30, 1940
	Production System				
205	Operated Acreage - Leaseholds	$ 5,722,261.05	$ 1,866.00		$ 5,724,127.05
205	Unoperated Acreage	135,241.69	183.25		135,424.94
	Total	$ 5,857,502.74	$ 2,049.25		$ 5,859,551.99
	Gas Wells				
211	Gas Well Equipment - Intangible	$ 2,413,769.48	$ 14,574.33		$ 2,428,343.81
212	Gas Well Equipment - Tangible	835,141.57	8,260.58	$ 717.07	842,685.08
	Total	$ 3,248,911.05	$ 22,834.91	$ 717.07	$ 3,271,028.89
	Gas Department Adjustment	$ (490,813.74)			$ (490,813.74)
218	Drilling and Cleaning Equipment	$ 24,679.54	$ 4,972.18	$ 3,776.39	$ 25,875.33
	Field Lines				
206B	Rights of Way	$ 13,512.51			$ 13,512.51
213B	Construction	345,373.36	$ 1,140.10	$ 28.05	346,485.41
	Cathodic Protection		1,587.75		1,587.75
214B	Equipment	892,155.08	6,257.37	1,381.15	897,031.30
	Total	$ 1,251,040.95	$ 8,985.22	$ 1,409.20	$ 1,258,616.97
	Other Field Facilities				
209M	Field Measuring Station Structures	$ 9,301.40	$ 556.06	$ 381.48	$ 9,475.98
215M	Field Measuring Station Equipment	49,837.88	2,033.91	1,857.46	50,014.33
221B	Field Compressor Station Structures	3,308.84			3,308.84
224B	Field Compressor Station Equipment	15,762.02	20.93	3.45	15,779.50
	Total	$ 78,210.14	$ 2,610.90	$ 2,242.39	$ 78,578.65
	Gasoline Investment				
900	Land	$ 615.00			$ 615.00
902	Rights of Way	242.13			242.13
903	Structures	48,545.21	$ 56.91		48,602.12
904	Equipment	293,112.72	1,436.69	$ 1,153.31	293,396.10
905	Delivery Line	2,792.48			2,792.48
906	Loading Rack	3,802.16	2.66	1.41	3,803.41
	Total	$ 349,109.70	$ 1,496.26	$ 1,154.72	$ 349,451.24
	Total Production System	$10,318,640.38	$ 42,948.72	$ 9,299.77	$10,352,289.33

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Schedule No. 2
Sheet 2 of 3

CANADIAN RIVER GAS COMPANY
GAS PLANT IN SERVICE
SEPTEMBER 30, 1940

	Particulars	Balance Jan. 1, 1940	Per Books Additions	Retirements	Balance Sept. 30, 1940
	Transmission System				
	Mains and Laterals				
218T	Land	$ 579.34			$ 579.34
220D	Rights of Way	31,826.56			31,826.56
226D	Equipment	2,477,058.47	$ 4,696.99	$ 830.64	2,480,924.82
	Total	$ 2,509,464.37	$ 4,696.99	$ 830.64	$ 2,513,330.72
	Dehydration Plant				
218D	Land	$ 441.22			$ 441.22
223D	Structures	6,193.62			6,193.62
227D	Equipment	35,138.83	$ 1,263.30	$ 188.72	36,213.41
	Total	$ 41,773.67	$ 1,263.30	$ 188.72	$ 42,848.25
	Main Compressor Stations				
218C	Land	$ 1,515.66	$ 429.87		$ 1,945.53
221C	Structures	95,060.65	25,174.06		120,234.71
223C	Other Structures		10,932.81		10,932.81
224C	Equipment	539,441.11	187,489.07	$ 137.37	726,792.81
	Total	$ 636,017.42	$224,025.81	$ 137.37	$ 859,905.86
	Measuring Stations				
218M	Land	$ 503.75			$ 503.75
222M	Structures	6,045.90			6,045.90
225M	Equipment	15,615.29	$ 92.92	$ 449.90	15,258.31
	Total	$ 22,164.94	$ 92.92	$ 449.90	$ 21,807.96
	Rivins Camp Investment				
218RC	Land	$ 826.25			$ 826.25
223RC	Structures	163,246.08	$ 798.60	$ 13.72	164,030.96
227RC	Equipment	22,086.27	821.33	75.00	22,832.60
	Total	$ 186,158.60	$ 1,619.93	$ 88.72	$ 187,689.81
	Total Transmission System	$ 3,395,579.00	$231,698.95	$ 1,695.35	$ 3,625,582.60
	Undistributed Fixed Capital				
200	Organization Expense	$ 387.45			$ 387.45
203	Other Undistributed Fixed Capital	8,843.16			8,843.16
262	Law Expenditures during Construction	53,091.59			53,091.59
266	Interest during Construction	556,897.95			556,897.95
	Total	$ 619,220.15			$ 619,220.15

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Exhibit No. 175

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Docket G-124

Schedule No. 2
Sheet 3 of 3

CANADIAN RIVER GAS COMPANY
GAS PLANT IN SERVICE
SEPTEMBER 30, 1940

	Particulars	Per Books: Balance Jan. 1, 1940	Additions	Retirements	Balance Sept. 30, 1940
	General Property				
247E	Office Structures	$ 2,793.03			$ 2,793.03
248E	Other Structures	33,588.04	$ 201.74	$ 6.96	33,782.82
249E	General Office Equipment	11,735.27	741.62	126.00	12,350.89
250E	General Store Equipment	6,154.19	379.17	7.20	6,526.16
255	Telephone System - Rights of Way	11,518.14			11,518.14
255E	Telephone System - Equipment	73,081.00	1,412.43	745.11	73,748.32
256E	General Tools and Implements	8,350.86	71.39		8,422.25
257E	Other General Equipment	3,050.25	105.01	25.91	3,129.35
253	General Garage Equip. (Autos, etc.)	36,078.40	9,423.86	7,360.37	38,141.89
	Total	$ 186,349.18	$ 12,335.22	$ 8,271.55	$ 190,412.85
	Total Gas Plant	$14,519,788.71	$286,982.89	$19,266.67	$14,787,504.93

3551
Exhibit No. 175

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Docket G-124

Schedule No. 4
Sheet 1 of 3

CANADIAN RIVER GAS COMPANY
STATEMENT OF INCOME AND SURPLUS ACCOUNTS - AS RECLASSIFIED
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 1940 AND 1939 AND COMPARISON

Line No.	Description (1)	Applicable to Year 1939: Twelve Months Ended Dec. 31, 1939 (2)	Three Months Ended Dec. 31, 1939 (3)	Nine Months Ended Sept. 30, 1939 (4)	Cents per M.C.F. (5)	Applicable to Year 1940: Nine Months Ended Sept. 30, 1940 (6)	Cents per M.C.F. (7)	Increase or (Decrease) Nine Months 1940 over 1939: Amount (8)	Cents per M.C.F. (9)
1	M.C.F. of gas produced (at 16.4 lbs. per square inch absolute)	41,791,261	11,936,708	29,854,553		30,951,427			
	Utility Income								
2	Operating Revenues	$2,427,216.79	$ 859,739.36	$1,527,477.43	5.12	$1,637,707.62	5.29	$110,230.19	.17
	Operating Revenue Deductions:								
3	Operating expenses (See note) (Schedule No. 6)	$ 991,280.60	$ 266,916.84	$ 724,363.76	2.43	$ 750,441.34	2.43	$ 26,077.58	
4	Depreciation	273,391.04	71,573.78	201,817.26	.68	203,736.58	.66	1,919.32	(.02)
5	Depletion	320,359.14	87,633.48	232,725.66	.78	237,110.95	.76	4,385.29	(.02)
6	(Profit) on plant retirements	(4,267.64)	(2,234.32)	(2,033.32)	(.01)	(5,531.70)	(.02)	(3,498.38)	(.01)
7	Taxes	125,370.28	62,350.14	63,020.14	.21	46,240.33	.15	(16,779.81)	(.06)
8	Total Operating Revenue Deductions	$1,706,133.42	$ 486,239.92	$1,219,893.50	4.09	$1,231,997.50	3.98	$ 12,104.00	(.11)
9	Net Operating Revenues	$ 721,083.37	$ 413,499.44	$ 307,583.93	1.03	$ 405,710.12	1.31	$ 98,126.19	.28
	Exploration and Development Costs								
10	Delay rentals	$ 5,770.18	$ (2,572.85)	$ 8,343.03	.03	$ 20,498.94	.07	$ 12,155.91	.04
11	Nonproductive well drilling	29,293.73	(872.57)	30,166.70	.10			(30,166.70)	(.10)
12	Abandoned leases	3,232.63	3,232.63						
13	Total Exploration and Development Costs	$ 38,296.54	$ (213.19)	$ 38,509.73	.13	$ 20,498.94	.07	$(18,010.79)	(.06)
14	Net Utility Income	$ 682,786.83	$ 413,712.63	$ 269,074.20	.90	$ 385,211.18	1.24	$116,136.98	.34
	Other Income								
15	Interest revenues	$ 20,920.90	$ 5,229.33	$ 15,691.57	.05	$ 15,735.68	.05	$ 44.11	
16	Miscellaneous nonoperating revenues	305,101.61	100,274.72	204,826.89	.69	121,202.24	.39	(83,624.65)	(.30)
17	Nonoperating revenue deductions (debit)	(164,359.90)	(47,972.68)	(116,387.22)	(.39)	(114,965.29)	(.37)	1,421.93	.02
18	Total Other Income	$ 161,662.61	$ 57,531.37	$ 104,131.24	.35	$ 21,972.63	.07	$(82,158.61)	(.28)
19	Gross Income	$ 844,449.44	$ 471,244.00	$ 373,205.44	1.25	$ 407,183.81	1.31	$ 33,978.37	.06
	Income Deductions								
	Interest on debt to Colorado Interstate Gas Company, on:								
20	Bonds	$ 330,210.00	$ 160,650.00	$ 169,560.00	.56	$ 151,710.00	.49	$(17,850.00)	(.07)
21	Notes and current account	100,353.40		100,353.40	.34	113,462.04	.37	13,108.64	.03
22	Other interest charges	11,403.39		11,403.39	.04	287.06		(11,116.33)	(.04)
23	Total Income Deductions	$ 441,966.79	$ 160,650.00	$ 281,316.79	.94	$ 265,459.10	.86	$(15,857.69)	(.08)
24	Net Income for period	$ 402,482.65	$ 310,594.00	$ 91,888.65	.31	$ 141,724.71	.45	$ 49,836.06	.14
	Earned Surplus								
	Credits								
25	Balance at beginning of period	$3,273,961.05	$3,359,909.70	$3,273,961.05		$3,664,543.70			
26	Net income for period (from above)	402,482.65	310,594.00	91,888.65		141,724.71			
27	Total Credits	$3,676,443.70	$3,670,503.70	$3,365,849.70		$3,806,268.41			
28	Debit - Premium on bonds redeemed	11,900.00	5,960.00	5,940.00		5,940.00			
29	Balance at end of period (See note)	$3,664,543.70	$3,664,543.70	$3,359,909.70		$3,800,328.41			

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Exhibit No. 175

9

CANADIAN RIVER GAS COMPANY
STATEMENT OF INCOME AND SURPLUS ACCOUNTS - AS RECLASSIFIED
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 1940 AND 1939 AND COMPARISON

Note: Earned Surplus in the foregoing statement is per books after addition thereto for rate case expenses deferred and deduction therefrom for operating and nonoperating deductions included in work in progress as set forth in the following detail:

	1939	1940
Earned Surplus, September 30:		
Per books	$3,388,703.88	$3,688,343.25
Per this schedule (above)	3,359,909.70	3,800,328.41
Net increase (decrease) in earned surplus	$ (28,794.18)	$ 111,985.16
Reclassified from earned surplus for the three months ended December 31, 1939 and from construction work in progress at September 30, 1940 to earned surplus:		
Operating Revenue Deductions		
Operating expenses:		
Production System		
W.O. 554		$ (3,417.40)
W.O. 569		(2,300.45)
Gathering System		
W.O. 522 closed October 1939	$ (223.88)	
Compressing Station		
W.O. 536 closed December 1939	(217.41)	
Transmission System		
W.O. 537 closed December 1939	(889.33)	
W.O. 538 closed November 1939	(490.60)	
W.O. 576		(385.15)
General		
W.O. 574		(587.56)
Telephone System		
W.O. 534 closed December 1939	(5.07)	
W.O. 564		(309.96)
	$ (1,826.29)	$ (7,000.52)
Exploration and Development Costs		
Nonproductive well drilling (Bivins A-26)	$ (30,166.70)	
Other Income		
Nonoperating revenue deductions		
Bivins Camp expense		
W.O. 498 closed November 1939	$ (397.21)	
W.O. 528 closed November 1939	(712.72)	
W.O. 536 reopened 1940		$ (289.16)
Shop expense		
W.O. 498 closed December 1939	(47.64)	
Gasoline expense		
W.O. 536 closed December 1939	(217.41)	
W.O. 536 reopened 1940		(289.16)
Total	$ (1,374.98)	$ (578.32)
Total reclassified from earned surplus	$ (33,367.97)	
Total reclassified from construction		$ (7,578.84)

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Schedule No. 4
Sheet 3 of 3

CANADIAN RIVER GAS COMPANY
STATEMENT OF INCOME AND SURPLUS ACCOUNTS - AS RECLASSIFIED
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 1940 AND 1939 AND COMPARISON

	1939	1940
Reclassified from earned surplus to deferred debits - rate case expenses:		
Operating Revenue Deductions		
Operating expenses - general:		
General office clerks salaries	$ (160.91)	
General law expenses	691.01	$ 1,072.81
General office rent	177.37	161.72
Other general office expenses - supplies and expenses	3,543.57	13,998.35
Other general expenses - other expenses	332.27	49,730.51
Operating expenses - Land Department	(9.52)	
Total	$ 4,573.79	$ 64,963.39
Rate case expenses accumulated in work in progress during 1939 and closed to expense in December 1939:		
Amount applicable to nine months ended September 30		$ 22,617.09
Amount applicable to three months ended December 31		14,865.02
Rate case expenses charged direct to operating revenue deductions during 1939:		
Amount applicable to nine months ended September 30		4,573.79
Amount applicable to three months ended December 31		12,544.71
Total	$ 4,573.79	$ 54,600.61
Total accumulated rate case expenses, reclassified (Schedule No. 3)	$ 4,573.79	$ 119,564.00
Net increase (decrease) in earned surplus	$ (28,794.18)	$ 111,985.16

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Schedule No. 5
Sheet 1 of 1

CANADIAN RIVER GAS COMPANY
STATEMENT OF OPERATING REVENUES
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 1940 AND 1939 AND COMPARISON

Line No.		Nine Months Ended September 30 — 1940 M.C.F.	1940 Amount	1939 M.C.F.	1939 Amount	Increase or (Decrease) M.C.F.	Increase or (Decrease) Amount
	Amarillo Oil Co. "Special Gas"						
1	Channing	6,623	$ 242.28	6,300	$ 235.72	323	$ 6.56
2	Dalhart	226,873	29,075.73	232,543	30,046.24	(5,670)	(970.51)
3	Texline	6,059	1,348.31	5,479	1,250.91	580	97.40
4	Hartley	3,402	582.91	3,341	590.97	61	(8.06)
5		242,957	$ 31,249.23	247,663	$ 32,123.84	(4,706)	$ (874.61)
6	Contract "B"	3,974,304	$ 166,564.46	2,946,494	$ 127,928.36	1,027,810	$ 38,636.10
7	Contract "C"	172	$ 21.16	164	$ 20.17	8	$ .99
8	Total Amarillo Oil Co.	4,217,433	$ 197,834.85	3,194,321	$ 160,072.37	1,023,112	$ 37,762.48
9	Clayton Gas Co.	66,339	$ 17,226.52	64,972	$ 17,139.47	1,367	$ 87.05
	Colorado Interstate Gas Co.						
10	Denver Line	12,816,642	$ 828,660.75	12,740,478	$ 842,576.82	76,164	$(13,916.07)
11	Chicago Line	13,394,126	862,776.82	13,378,074	885,182.62	16,052	(22,405.80)
12	Gas Revenue Adjustments		(281,373.97)		(389,044.05)		107,670.08
		26,210,768	$1,410,063.60	26,118,552	$1,338,715.39	92,216	$ 71,348.21
13	Gas Used In Gasoline Plant	251,653	$ 12,582.65	231,004	$ 11,550.20	20,649	$ 1,032.45
14	Total Operating Revenues	30,746,193	$1,637,707.62	29,608,849	$1,527,477.43	1,137,344	$110,230.19

Note: Amounts enclosed in parentheses denote red figures.

3561-3563

Exhibit No. 175

Docket G-124

Schedule No. 6
Sheet 1 of 1

CANADIAN RIVER GAS COMPANY
SUMMARY OF OPERATING EXPENSES - AS RECLASSIFIED
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 1940 AND 1939 AND COMPARISON

13

Line No.	Description (1)	Nine Months Ended September 30 1940 (2)	1939 (3)	Increase or (Decrease) (4)
	Summary of Operating Expenses			
1	Gas royalties	$264,740.09	$245,370.22	$19,369.87
2	Rental and operating expenses of leased facilities	158,633.59	155,135.54	3,498.05
3	Profit and loss suspense (Subschedule No. 6-1)	101,190.56	108,332.59	(7,142.03)
	Gas expenses (Subschedule No. 6-1):			
4	Production system	29,848.77	36,437.38	(6,588.61)
5	Gathering system	18,383.71	21,336.17	(2,952.46)
6	Compressing system	41,049.32	33,411.92	7,637.40
7	Transmission system	17,168.48	19,246.41	(2,077.93)
8	General	80,026.58	63,891.24	16,135.34
9	Land department	6,340.50	6,834.56	(494.06)
10	Meter system	18,350.25	19,406.40	(1,056.15)
11	Amarillo office	8,321.65	8,532.84	(211.19)
12	Telephone system	6,387.84	6,428.49	(40.65)
13	Total	$750,441.34	$724,363.76	$26,077.58

Note: The only reclassifications applied to the operating expenses, per books, for the nine months ended September 30, 1940 and 1939 are those shown in footnote to Schedule No. 4.

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Subschedule No. 6-1
Sheet 1 of 7

CANADIAN RIVER GAS COMPANY
STATEMENT OF OPERATING EXPENSES AS RECLASSIFIED
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 1940 AND 1939 AND COMPARISON

14

Description (1)	Nine Months Ended September 30 1940 (2)	1939 (3)	Increase or (Decrease) (4)
Detail of Profit and Loss Suspense			
Federal Income Taxes:			
Applicable to year 1934		$ 33,035.40	
do. 1935		22,572.94	
do. 1936		1,398.09	
do. 1937	$ 2,452.62		
do. 1938		51,326.16	
do. 1939	49,802.26		
	$ 52,254.88	$108,332.59	$(56,077.71
Nonproductive well drilling:			
Bivins A-26	$ 189.60		
City of Amarillo No. 1	48,746.08		
	$ 48,935.68		$ 48,935.68
Total	$101,190.56	$108,332.59	$ (7,142.03)

56. Operating Costs of Canadian, 1928 to 1939, Inclusive, and as Estimated, 1940 to 1947, Inclusive, for all Gas, Except Colorado Interstate's Direct Sale Gas.

Exhibit 165, Witness Rhodes (Vol. XLVI, p. 6277), shows the cost of operations of Canadian for resale gas alone, 1928 to 1947, inclusive. Rhodes said that without the production of gas delivered to the Denver Line for sale direct to consumers, the resulting annual costs of Canadian's operations are lower than those shown in Exhibit 163, abstracted above, due to the reduction in the required production facilities set forth in Exhibit 121, Witness Watson, and a reduction in transmission facilities set forth in Exhibit 98, Witness Rhodes, as well as from the reduced volume of gas required. Savings in the cost of operations through the elimination of direct sale gas below those actually incurred in 1939 are stated to be as follows:

1.	Reduction in Total Expense, Column (4), due to reduced number of wells and volume of gas (which refers to Statement No. 1 of this exhibit)	$115,629
2.	Offsetting reduction in gasoline revenue due to reduced volume of gas, Column (5)	85,078
3	Net Reduction in Net Operating Expense, Column (6)	$ 30,551
	(Page 6278)	
4	Reduction in interest, amortization and income taxes, Columns (7), (8) and (9)	$ 21,267
5.	Net reduction in Total Cost of Operations, Column (10)	$ 51,818
	(Page 6279)	

These reductions in cost were determined by the application of the principles used in projecting past operating costs of Colorado Interstate, as shown in Exhibit 76, to future operating costs as shown in Exhibit 136 (abstracted supra in Title 24).

The reduction in costs reflects the full net savings that result from the reduced use of those facilities that are un-

changed, and the reduced extent of the facilities that are curtailed. As to items of equipment, the construction of which is deferred, the corresponding notes issued on account of such equipment have been similarly deferred.

In the case of reduced pipe line diameter, bonds have been eliminated representing the saving in actual construction cost that could have been achieved with a smaller pipe. Different reduction in costs were made for years other than 1939 reflecting the costs normally to be expected in those years with reduced property required to be operated.

Statement 1 is reconciled with Exhibit 163 as follows:

"(a)	Cost of operations of Canadian River Gas Company's property owned by it in 1939 per Exhibit No. 163	$2,184,086
"(b)	Net deductions from such costs in 1939 made in this exhibit and summarized above	51,818
"(c)	Annual cost of operations of Canadian River Gas Company in 1939 without Denver line direct sale gas shown by Column (10) of the attached Statement No. 1	$2,132,268"

The detail of Statement 1 showing the cost of operations for resale gas alone 1928 to 1947, inclusive, is shown below:

Calendar Year (1)	Gas Expenses (B) (2)	Other Expense (C) (3)	Total Expense (4)	Other Revenues (D) (5)	Net Operating Expenses (6)	Interest (7)	Amortization of Debt (8)	Federal Income Taxes (9)	Total Operating Costs (10)
1928(A)	$ 69,337	$111,371	$180,708	$ 16,504	$164,204	148,207	$ 11,105	....	$ 323,516
1929	194,885	339,818	534,703	115,403	419,300	740,517	79,499	....	1,239,316
1930	222,619	305,440	528,059	113,446	414,613	732,536	819,096	....	1,966,245
1931	273,380	375,583	648,963	86,680	562,283	693,127	779,575	$ 53,484	2,088,469
1932	240,848	343,632	584,480	72,327	512,153	731,506	851,210	76,238	2,171,107
1933	209,251	275,463	484,714	70,606	414,108	684,185	865,163	70,556	2,034,012
1934	213,981	330,794	544,775	64,124	480,651	647,171	880,418	75,702	2,083,942
1935	205,335	358,456	563,791	94,664	469,127	579,156	884,181	58,290	1,990,754
1936	233,582	396,403	629,985	98,039	531,946	537,108	911,448	53,385	2,033,887
1937	256,456	437,793	694,249	111,574	582,675	495,807	932,426	74,322	2,085,230
1938	256,460	430,892	687,352	86,475	600,877	459,882	940,987	75,198	2,076,944
1939	327,600	487,781	815,381	99,409	715,972	418,506	919,212	78,578	2,132,268
1940	410,418	529,014	939,432	85,347	854,085	396,012	872,332	71,990	2,194,419
1941	373,458	528,609	902,067	91,456	810,611	359,519	840,860	60,017	2,071,007
1942	332,282	582,798	915,080	94,618	820,462	327,867	872,099	55,439	2,075,867
1943	356,110	616,059	972,169	97,466	874,703	296,775	920,402	59,659	2,151,539
1944	362,452	652,813	1,015,265	100,315	914,950	256,003	966,898	62,423	2,200,274
1945	365,996	650,529	1,016,525	103,135	913,390	205,325	1,007,917	66,108	2,192,740
1946	369,201	596,320	965,521	103,135	862,386	153,986	1,054,520	89,575	2,160,467
1947	372,847	374,143	746,990	103 135	643,855	95,322	1,099,001	150,083	1,988,261

Notes: (A) 7 Months.
(B) Details Attached—Statement No. 2.
(C) Details Attached—Statement No. 3.
(D) Details Attached—Statement No. 4.

On cross-examination Mr. Rhodes testified: (Vol. XLVI, p. 6285.)

Q. Mr. Rhodes, you use the same principle that you used in Exhibit 163?

A. Yes.

Q. And if I should ask you on cross examination regarding this exhibit questions of a similar nature involving the principal nature of the exhibit, your answer would have to be the same.

A. That is true.

* * * * *

Mr. Rhodes further testified: (Vol. XLVI, p. 6286.)

Q. Then if I should ask you similar questions regarding the same principle as to this exhibit as I did to Exhibit 136, your answers would be substantially the same?

A. Yes, they would.

* * * * *

Mr. Rhodes further testified: (Vol. XLVI, pp. 6288-6295.)

The Witness: This exhibit was based on the production of the amount of gas required exclusive of the direct sale gas which we assumed would not be supplied by Canadian River or go up the line.

By Mr. March:

Q. Did you assume, Mr. Rhodes, that there would be no other market for this direct sale gas if it was not used by the direct sale industrial customers on the Denver line?

A. Well, I made no specific assumptions except that I eliminated that volume of gas from the business of the Denver line and from the business of Canadian River Gas Company for the purpose of this study.

Q. Well, in order for you to reach the conclusions there would be a reduction in the volume of gas, therefore, a reduction in the volume of gasoline revenues, you had to assume, did you not, that the gas which was not used by the direct industrial load, the Denver line, would not be sold to anyone else?

A. In effect, yes.

Q. As a matter of fact, from a practical standpoint, in all probability that gas could be disposed of by Canadian

River Gas Company even if the direct industrial sale customers of the Denver line did not take the gas?

A. I don't know to whom.

Q. It would go to help supply the Chicago market, couldn't it?

A. That's already included in full.

Q. Yes, but, of course, if you had these direct sale industrial customers cut off the Denver line, why, you wouldn't have to increase your facilities to take care of the Chicago load, you could just divert that load over to the Chicago load immediately.

A. That's already been taken care of by Mr. Watson's testimony, that so many wells less would be required to produce the gas in the absence of that particular market.

Q. As a matter of fact it could very well be diverted, couldn't it, to the Chicago market?

A. No, the Chicago market is completely satisfied.

Q. What about the Milwaukee market?

A. The Milwaukee market is not attached.

Q. It will be attached shortly, won't it?

A. Well, whatever is going to Milwaukee is already provided for in the amount of gas to be produced in here.

Q. Yes, I know that. However, if you cut off the direct industrial customers off the Denver line then you won't have to increase your facilities to supply the Milwaukee load?

A. That's taken care of by Mr. Watson's testimony as to how much reduction in facilities would be possible. We have eliminated all of the facilities that Mr. Watson states could be eliminated if this business did not exist.

Mr. Spencer: "This business," meaning the direct sale Denver business?

The Witness: Direct sale business.

By Mr. March:

Q. Mr. Rhodes, would you as an engineer state here for the record that in your opinion if this gas was not delivered to direct industrial customers on the Denver line that there would be no market for the gas in the immediate future?

A. I don't know what would happen under such circumstances. I have confined this statement to an estimate of

what the operating cost would be to deliver the amounts of gas that the company is now delivering exclusive of that gas and with the reduced facilities, or the elimination of facilities, rather, that could be made with that reduced volume of gas.

Q. You wouldn't want to express an opinion in regard to that?

A. Well, it has nothing to do with this exhibit at all.

Q. You wouldn't want to express an opinion in regard to that?

A. I don't know what market there would be with regard to that particular gas if the Denver line wasn't taking it. That would be conjecture on my part.

Q. As a matter of fact, you have no intentions, do you, of cutting off the direct industrial load from the Denver line?

A. I haven't given any thought to it.

Q. As a matter of fact, this whole exhibit is purely a hypothetical conjecture as to what would happen if you did certain things?

A. No, that is an incorrect description of it. It is a determination of what the cost to Canadian River Gas Company would be in the absence of that business. The business is there, it is true.

Q. And do you expect the business to remain there?

A. Presumably.

Q. As a matter of fact, under the terms of the agreement under which—the basic agreements under which this project was inaugurated, it would be impossible to cut off that direct industrial sale gas?

A. I don't know.

Q. Under the terms of the contracts?

A. I don't know about that.

Q. You haven't made any study of those contracts?

A. Not from that standpoint.

Q. Then you wouldn't know?

A. I don't recall just what the basic agreement provided in that respect, but the facts are, I already put in an exhibit showing what it would cost with all of the gas, and here is what it would cost with a certain part of it missing.

Q. Although we are interested only in the Denver line here, you have included in this exhibit the production of gas by the Canadian River Gas Company for all purposes?

A. Well, in this exhibit I am interested in all of the gas the Canadian River produces except that which goes to the Denver line for sale direct to consumers.

Q. Now, I note here on Page 2 that you state: "The above reductions in cost were determined by the application of the principles used in projecting past operating costs of Colorado Interstate Gas Company shown by Exhibit No. 76 to future operating costs shown by Exhibit No. 136."

Now what do you mean by the principles?

A. Well, the basic principle is the principle of the added cost of added facilities or the increment cost principle, as it is sometimes referred.

Q. That's what you mean by those principles?

A. That's right. These adjustments here are made on what I call, and is frequently called, the increment cost basis rather than the average unit cost basis.

Q. I note here that you state that for 1939 the net reduction in the total cost of operations, Column 10, is $51,818. Now, would you, Mr. Rhodes, state that it would only cost in operating expenses $51,818 to take care of the direct industrial load on the Denver line?

A. That would be the added operating costs required to take care of the direct sale gas on the Denver line as an added volume of business.

Q. Yes. Of course, that's not the question I asked you—

Mr. Spencer: Read the question to Mr. Rhodes again.

(The question referred to was read by the reporter, as set forth above.)

The Witness: You might change that to read "Added total cost of operations," and you might further add it is the increment cost, as I previously described it, of producing and delivering that gas to Clayton Junction.

By Mr. March:

Q. Of course, I understand that this $51,818 is allegedly

the incremental cost, but my question was this, as to whether or not you would state for the record here that it would cost only $51,818 to take care of your direct industrial load on the Denver line, operating expenses—assuming that you did not have the other load?

A. No, I would not state that at all.

Q. You wouldn't even want to leave that impression in the record, would you?

A. Of course not.

Q. As a matter of fact, it would take almost as much to take care of the industrial load, if you only had that, as it would the resale load?

A. Other *thing* being the same.

Q. Well, why didn't you prepare an exhibit which would show that?

A. Because I hadn't been asked to, and I have given no thought to it as a situation worthy of consideration.

Q. Who asked you to prepare this exhibit?

A. Mr. Spencer.

Q. He outlined what kind of an exhibit he wanted and told you to prepare it?

A. No, he just told me he wanted to know what the cost of operations would be with the volumes of gas required other than direct sale gas and with the property that will be required to handle that curtailed business.

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57. Sales Price of All Gas Sold to Colorado Interstate at Clayton Junction on Cost Basis Computed Under Contract.

The contract of January 3, 1928, between Colorado Interstate and Canadian (Exhibit 16) covering the purchase and sale of gas provides a method of determining the cost of gas in Article Tenth thereof.

In Exhibit 164, Witness Lusk (Vol. XLIII, p. 5998) shows the computed costs under basic contract terms of all gas delivered by Canadian at Clayton Junction, New Mexico, to Colorado Interstate, 1928 to 1947, inclusive. This exhibit shows the cost of operations of Canadian, 1928 to 1939, inclusive, and the estimated cost, 1940 to 1947, inclusive as related to the property owned and as required in the future.

up to the end of 1947, all as shown in Exhibit 163, abstracted supra. Such cost is divided between the well mouth production system, the gathering system and the transmission system, including the Bivins gasoline plant. Those parts of the respective system costs computed under basic contract terms are shown which constitute the cost of all gas delivered at Clayton, New Mexico, to Colorado Interstate. Mr. Lusk stated that these costs comprise (a) costs arising from operating and maintaining the property owned by the company, and (b) payments reimbursing the Colorado Interstate with interest for the funds advanced by it and used in the purchase and development of such properties, all under the basic method provided in the contract for the sale of gas to Colorado Interstate (Exhibit 16) at Clayton Junction. (Vol. XLIII, p. 5999.)

The costs were divided between the well mouth production system, the gathering system and the transmission system in order to compute the cost of all gas delivered at Clayton Junction. Most of the costs are directly charged to some one of the three systems. Those costs which are undistributed on the company's books have been divided as between the three systems pro rata with the directly charged expenses related thereto.

Payments in reimbursement of Colorado Interstate for moneys advanced for the purchase and development of the company's property comprise interest and amortization costs of the company's bonds and notes owned by Colorado Interstate, including interest on current advances. The aggregate total amount of bonds authorized and issued by Canadian was $11,000,000, the entire proceeds of which were used for the initial purchase and construction of Canadian's properties. Under the terms of the contract (Exhibit 16) subsequent purchase and construction of properties are financed through notes issued by Canadian to Colorado Interstate. These notes are designated straight notes. A notes, B notes and C notes, classification representing specific systems of property. (Vol. XLIII, p. 6016.) Maturities extend over a period not exceeding 120 months and for shorter periods subsequent to 1938 so that the last maturity is July 1, 1948. Such costs related to the bonds were divided as between systems pro rata with the book costs of the

property purchased or constructed by the use of the proceeds of the bonds. Such costs related to most of the notes have been charged directly to the systems developed through the use of (Vol. XLIII, p. 6000) the proceeds of such notes.

Interest on and amortization of notes issued to provide for general property have been assigned to the Denver pipe line properties in the proportion that general property was so assigned in Exhibits 67 and 133, relating to original cost of the Denver pipe line properties. The remainder was divided between the well mouth production system and the gathering system pro rata with the physical properties in those systems. Interest on current indebtedness was divided in proportion to the direct cost of operating and maintaining the three systems. The division of costs of operations as between systems is summarized by Statements 2 to 4, inclusive, with supporting Statements 5 to 8, inclusive

The contract of January 3, 1928, between the Canadian and Colorado Interstate makes provision for the division of costs as between separate deliveries of gas which make joint use of certain facilities. These provisions were based solely on the volumes of gas delivered, and ignored the other characteristics of the deliveries which affect their respective costs, and such provisions were used in assigning the cost of operations to the deliveries of all gas at Clayton. (Vol. XLIII. p. 6001.)

By way of example, the transmission costs are assigned to Clayton Junction deliveries in the proportion those deliveries bear to the total amount of gas delivered from Canadian River transmission line. The gathering costs are assigned to Clayton Junction deliveries in the proportion that the gas gathered to make such deliveries (including a pro rata share of gas used at Bivins) bears to the total gas gathered; and the well mouth production costs (including gas purchased) are assigned to Clayton Junction deliveries in the proportion that the gas produced to make such deliveries (including a pro rata share of gas used in gathering) bears to the total well mouth production.

The percentages of production, gathering and transmis-

sion costs chargeable under the contract for deliveries at Clayton are made on Statements 9 and 10.

Statements 1, 2, 3 and 4 show year by year from 1928 to 1947, inclusive, in summary form, the computed cost of gas under the basic contract terms of all gas delivered at Clayton Junction to Colorado Interstate. (Vol. XLIII, p. 6002.)

The quantities of gas are based on Exhibit 78, which shows the quantities up to and including 1939, and on Exhibit 80, which shows the estimate of future deliveries, from 1940 to 1947, inclusive. These exhibits are abstracted supra.

In arriving at total production costs all of the gas produced by Canadian for all of its various deliveries is included. All of this gas is involved in the gathering, except deliveries to the Amarillo Oil at the well mouth for delivery to Amarillo, Texas, free gas to the lessors, and gas used in the production system, and includes all the gas delivered at Fritch and at Bivins. (Vol. XLIII, p. 6004.) With respect to transmission, it includes the output at Bivins station less the gas that goes to Dalhart, Texline and Hartley, under the Amarillo Oil special contracts, and deliveries made to Clayton Gas Company. The difference is what is received at Clayton Junction by Colorado Interstate. The costs assigned to gas delivered at Clayton Junction found in production, are costs that are shared by all of the gas produced. It is only a portion of the total production costs which he took out and allocated to Clayton Junction delivery, contained in Statement 1 under the column "Production" that is divided strictly on an Mcf. basis. (Vol. XLIII, p. 6005.)

The gathering costs, in the second column of Statement 1, are related to all of the gas which actually goes through the gathering system to Fritch or Bivins, and the figure in column 2 is the proportionate amount which he allocated to the quantity delivered by Canadian to Colorado Interstate at Clayton Junction.

The transmission operations include the compressor station costs at Bivins, and from Bivins to Clayton Junction.

The total costs of the transmission incurred by Canadian

were divided between the quantities delivered to Amarillo Oil, Clayton Gas Company, north of Bivins station, and deliveries at Clayton Junction to Colorado Interstate. (Vol. XLIII, p. 6006.)

The total output at Bivins in relation to the total Mcf. received at Clayton Junction is the factor used in determining the transmission costs.

In column 4 is shown the computed cost on all of these various factors. It includes all the gas received by the Colorado Interstate which it sells to industrial consumers as well as customers for resale. (Vol. XLIII, p. 6007.)

The percentage figure in column 12, Statement 2 of the exhibit, which a footnote shows is worked out on Statement 9, has been applied against the dollars shown in Column 11.

The figures used from 1940 to 1947 tie into Mr. Rhodes' Exhibit 163. (Vol. XLIII, p. 6008.)

The indirect expense is composed of all of the expenses shown on Statement 6, which is general and administrative expense and the Amarillo office expense.

He spread the indirect expense as between production, gathering, compressing and transmission system on the ratio of the direct gas expense. (Vol. XLIII, p. 6013.)

As shown on Statement 1, the computed cost of all gas under basic contract terms, delivered to the Colorado Interstate at Clayton Junction, 1928 to 1947, inclusive, is as follows:

Year	Production (B) (1)	Gathering (B) (2)	Transmission (B) (3)	Total (4)
1928 (A)	$ 133,948	$ 16,560	$ 50,017	$ 200,525
1929	528,703	99,648	181,232	809,583
1930	916,517	160,621	471,492	1,548,630
1931	1,046,496	131,764	466,992	1,645,252
1932	957,947	120,349	466,901	1,545,197
1933	872,017	117,383	436,962	1,426,362
1934	701,605	93,258	432,420	1,227,283
1935	638,320	79,649	372,108	1,090,077
1936	665,645	95,587	372,600	1,133,832
1937	678,541	101,623	376,483	1,156,647
1938	650,537	105,309	435,038	1,190,884
1939	699,942	112,878	408,188	1,221,008
1940	699,884	113,468	510,142	1,323,494
1941	672,062	121,223	499,803	1,293,088
1942	615,475	114,692	508,103	1,238,270
1943	590,005	112,213	542,541	1,244,759
1944	576,933	109,152	521,686	1,207,771
1945	566,117	108,000	501,758	1,175,875
1946	625,352	120,927	486,372	1,232,651
1947	1,014,218	248,180	471,447	1,733,845

Notes: (A) 7 Months.

(B) Amounts in Columns (1), (2), and (3) from Statements 2, 3, and 4 respectively.

The operations of Canadian and its use of its production, gathering and transmission factilities involve sales to three individual customers, i.e., Colorado Interstate, Amarillo Oil Company and Clayton Gas Company. Deliveries to Colorado Interstate are made at two points: (1) Clayton Junction, New Mexico, for the Denver pipe line market, and (2) Gray, Oklahoma, for the Chicago pipe line market. Deliveries to Amarillo Oil are made at the well for the city of Amarillo and Channing markets, and at different points along Canadian's pipe line system for the Dalhart, Hartley and Texline, Texas, markets. Deliveries to Clayton Gas Company are made at the Clayton, New Mexico, town border. (Vol. I, pp. 65, 66.)

The contract under which deliveries are made to Colo-

rado Interstate at Clayton Junction, and the contract under which deliveries are made to Clayton Gas Company, are fully abstracted under Title 7 supra.

Under Title 8 supra there is abstracted the contract between Colorado Interstate and Natural Gas Pipe Line Company of America, dated October 15, 1931, together with amendments thereto, found in Exhibit 7-G, and as a part of the arrangement for the sale by Colorado Interstate to Natural Gas Pipe Line Company of America at Gray Junction, Oklahoma, a contract was entered into between Canadian and Colorado Interstate, dated June 1, 1938, and which is found in Exhibit 16. Section 6 provides:

> "The natural gas which Buyer requires for delivery to Natural Gas Pipe Line Company of America under the terms and provisions of the agreement between Buyer and said Natural Gas Pipe Line Company of America dated October 15, 1931 (abstracted under Title 8 in Colorado Interstate's brief), as modified from time to time, is a part of the gas sold and delivered under the terms of said 1928 agreement. Such gas shall be delivered by Seller to Buyer into the pipe line of Natural Gas Pipe Line Company of America at the junction between the pipe line owned by Texoma Natural Gas Company and Natural Gas Pipe Line Company of America near Gray, Beaver County, Oklahoma. Seller will continue in full force and effect the lease and operating agreement dated October 15, 1931, between Seller and Texoma Natural Gas Company, and the agreement of the same date between the same parties relating to the operation of the gasoline plant at Fritch, Texas, and will fully perform all the terms and provisions of each thereof in order to enable Seller to make delivery of gas to Buyer at Gray Junction, Oklahoma."

The contract between Canadian and Amarillo Oil providing for the sale of gas by the former to the latter at the well for the Amarillo and Channing markets, dated January 3, 1928, is Exhibit 16-B, which is contained in the contract of January 3, 1928, between Canadian and Colorado Interstate (the gas sales agreement) and which is Exhibit 16. The reason for the designation as Exhibit 16-B is that this contract was designated Exhibit B and made a part of

the gas sales contract just referred to. This contract is for a term of twenty years from the day on which Colorado Interstate begins delivering gas to Public Service Company of Colorado and "so long thereafter as Seller has available for delivery to Buyer hereunder quantities of natural gas which Buyer determines are profitable for it to buy under the terms of this contract." It provides in Article II that the gas to be sold shall be delivered by Seller and received by Buyer at the gate valves on Seller's wells, or the pipe connection points at which Seller receives natural gas bought for delivery hereunder from other producers. The price to be paid by Amarillo Oil is the "Seller's cost" as determined and defined in the contract.

Statement No. 7 and Statement No. 8 of Exhibit 164 are as follows:

Canadian River Gas Company

Distribution of Debt Amortization

1928 to 1947, Inclusive

	Production System					Gathering System			
Year	Bonds	Straight Notes	"A" Notes	"C" Notes	Total	Bonds	B-1 Notes	"C" Notes	Total
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
1928 (A)	-	$ 3,626	$2,771	$ 120	$ 6,517	-	$ 1,155	$ 46	$ 1,201
1929	-	33,052	12,190	1,024	46,266	-	8,401	390	8,791
1930	$408,645	116,272	9,704	1,268	535,889	$57,076	10,821	483	68,380
1931	345,776	173,351	7,460	1,878	528,465	48,295	14,490	715	63,500
1932	377,210	183,675	6,945	2,588	570,418	52,686	22,821	985	76,492
1933	373,584	197,557	6,967	2,811	580,919	52,179	25,770	1,070	79,019
1934	373,584	208,770	9,725	2,939	595,018	52,179	23,665	1,118	76,962
1935	373,584	210,074	7,851	3,206	594,715	52,179	26,383	1,220	79,782
1936	373,584	222,775	7,863	3,769	607,991	52,179	40,024	1,434	93,637
1937	373,584	235,540	8,977	4,187	622,288	52,179	48,123	1,593	101,895
1938	369,956	245,788	5,542	5,780	627,066	51,673	52,868	2,200	106,741
1939	369,956	249,165	-4,847	5,564	619,838	51,673	48,743	2,117	102,533
1940	369,956	186,991	-1,274	6,231	561,904	51,673	49,160	2,348	103,181
1941	369,956	140,860	1,692	5,900	518,408	51,673	60,271	2,476	114,420
1942	369,956	147,000	2,098	5,676	524,730	51,673	74,416	2,451	128,540
1943	366,329	159,333	2,670	5,970	534,302	51,166	84,443	2,543	138,152
1944	366,329	179,238	2,954	6,010	554,531	51,166	93,618	2,536	147,320
1945	366,329	212,404	4,209	5,895	588,837	51,166	102,872	2,467	156,505
1946	366,329	255,355	5,580	5,375	632,639	51,166	106,071	2,228	159,465
1947	366,329	290,802	7,044	4,938	669,113	51,166	112,631	2,042	165,839

Note: (A) 7 months

Statement No. 7

Exhibit No. 164

Canadian River Gas Company

Distribution of Debt Amortization

1928 to 1947, Inclusive

	Gathering System				Transmission System and Compressing Stations				Total Debt Amortization
Total	Bonds	B-1 Notes	"C" Notes	Total	Bonds	B 2,3 & 4 Notes	"C" Notes	Total	
(5)	(6)	(7)	(8)	(9)	(10)	~~(11)~~	(12)	(13)	(14)
$ 6,517	-	$ 1,155	$ 46	$ 1,201	-	$ 3,247	$ 140	$ 3,387	$ 11,105
46,266	-	8,401	390	8,791	-	23,252	1,190	24,442	79,499
535,889	$57,076	10,821	483	68,380	$204,188	27,607	1,473	233,268	837,537
528,465	48,295	14,490	715	63,500	172,775	31,094	2,182	206,051	798,016
570,418	52,686	22,821	985	76,492	188,482	31,252	3,007	222,741	869,651
580,919	52,179	25,770	1,070	79,019	186,669	33,554	3,266	223,489	883,427
595,018	52,179	23,665	1,118	76,962	186,669	36,620	3,414	226,703	898,683
594,715	52,179	26,383	1,220	79,782	186,669	37,554	3,725	227,948	902,445
607,991	52,179	40,024	1,434	93,637	186,669	37,036	4,379	228,084	929,712
622,288	52,179	48,123	1,593	101,895	186,669	37,875	4,865	229,409	953,592
627,066	51,673	52,868	2,200	106,741	184,857	43,921	6,716	235,494	969,301
619,838	51,673	48,743	2,117	102,533	184,857	26,905	6,464	218,226	940,597
561,904	51,673	49,160	2,348	103,181	184,857	40,342	6,560	231,759	896,844
518,408	51,673	60,271	2,476	114,420	184,857	57,816	6,131	248,804	881,632
524,730	51,673	74,416	2,451	128,540	184,857	85,410	6,072	276,339	929,609
534,302	51,166	84,443	2,543	138,152	183,045	107,195	6,120	296,360	968,814
554,531	51,166	93,618	2,536	147,320	183,045	104,121	5,979	293,145	994,996
588,837	51,166	102,872	2,467	156,505	183,045	103,189	5,696	291,930	1,037,272
632,639	51,166	106,071	2,228	159,465	183,045	103,702	5,024	291,771	1,083,875
669,113	51,166	112,631	2,042	165,839	183,045	102,875	4,588	290,508	1,125,460

Note: (A) 7 months

On cross-examination MR. LUSK testified: (Vol. XLV, pp. 6167-6168.)

Q. Mr. Lusk, you testified on direct examination last week with reference to the preparation of your Exhibit No. 164, did you not?

A. That is correct, yes, sir.

Q. And I notice the title of that, the exhibit, appearing on the cover of it was "Canadian River Gas Company Computed Costs under Basic Contract Terms, all gas delivered at Clayton Junction, New Mexico, to Colorado Interstate Gas Company, 1928 to 1947, inclusive."

Of course, the exhibit will speak for itself, but what was your purpose for the preparation of it?

A. To establish the cost of gas at Clayton Junction.

Q. Now, the computation of the figures of the cost set forth is limited, of course, in its scope to the provisions of the contract between the two companies as of January 3, 1928, I take it?

A. That is correct, yes, sir.

* * * * * *

MR. LUSK further testified: (Vol. XLV, pp. 6183-6184.)

In Exhibit 164 where do you show the figures as set forth in the amortization cost of Statement 1, Mr. Rhodes' exhibit?

A. You can take any part of Mr. Rhodes' exhibit and add to it. The total debt amortization, Column 14—

Q. That is shown on Statement 7, Exhibit 164?

A. Yes. You take Mr. Rhodes' statement of total debt amortization and it is the same as my Statement 7, Column 14.

Q. Any statement of amortization of debt in Mr. Rhodes' exhibit would have to be made in your Statement 7?

A. That is right. If we were concerned in these exhibits in making small piecemeal changes, we would never finish in order to provide notes and amortization charges.

Q. But to that extent it doesn't include the true cost, even under the contract, does it?

A. I think it does We reflect a true cost—as a matter of fact, I doubt if there is anything known as a true cost.

Q. What do you determine under true cost?

Canadian River Gas Company

Distribution of Interest Charges

1928 to 1947 Inclusive

	Production System						Gathering System				
Year	Bonds	Straight Notes	"A" Notes	"C" Notes	Current Account	Total	Bonds	"B" Notes	"C" Notes	Current Account	Total
1928 (A)	$ 80,075	$ 1,737	$ 1,636	$ 56	$27,067	$110,571	$11,184	$ 510	$ 21	$ 488	$12,203
1929	397,703	8,295	5,769	317	66,500	478,584	55,548	4,585	121	3,419	63,673
1930	394,932	33,733	5,636	642	34,851	469,794	55,161	5,601	244	2,094	63,100
1931	342,988	84,540	3,856	721	31,217	463,322	47,906	6,878	274	1,516	56,574
1932	353,647	90,441	2,358	1,085	41,827	489,358	49,395	8,146	413	2,392	60,346
1933	331,889	83,922	1,835	1,249	35,393	454,288	46,356	8,715	475	2,553	58,099
1934	310,130	81,889	1,767	1,160	36,441	431,387	43,317	9,536	442	2,370	55,665
1935	288,371	71,929	1,642	1,060	20,097	383,099	40,278	8,930	403	885	50,496
1936	266,613	63,031	676	1,177	20,858	352,355	37,238	11,420	448	1,324	50,430
1937	244,836	55,977	775	1,153	20,574	323,315	34,197	15,512	439	1,219	51,367
1938	223,132	50,607	723	1,510	23,973	299,945	31,165	17,946	575	1,554	51,240
1939	201,428	44,325	-734	2,056	19,795	266,870	28,134	16,881	782	1,327	47,124
1940	179,651	48,401	124	741	25,769	254,686	25,092	14,744	279	1,539	41,654
1941	157,911	43,405	491	763	25,585	228,155	22,056	17,825	321	1,595	41,797
1942	136,134	41,070	570	830	25,799	204,403	19,014	22,272	358	1,519	43,163
1943	114,430	40,316	620	813	25,499	181,678	15,983	21,762	346	1,485	39,516
1944	92,726	38,427	645	661	25,687	158,146	12,951	18,913	279	1,462	33,605
1945	70,949	33,681	624	500	25,601	131,355	9,910	15,130	209	1,495	26,744
1946	49,190	27,540	528	321	25,092	102,671	6,871	11,241	133	1,617	19,862
1947	27,432	15,576	357	146	22,378	65,889	3,831	6,016	60	2,205	12,112

Note (A): 7 Months

Statement No. 8

Exhibit No. 164

Canadian River Gas Company
Distribution of Interest Charges

1928 to 1947 Inclusive

	Gathering System					Transmission System and Compressing Stations					
Total	Bonds	"B" Notes	"C" Notes	Current Account	Total	Bonds	"B" Notes	"C" Notes	Current Account	Total	Total Interest
$110,571	$11,184	$ 510	$ 21	$ 488	$12,203	$40,012	$ 1,613	$ 66	$ 3,336	$ 45,027	$167,801
478,584	55,548	4,585	121	3,419	63,673	198,721	6,290	369	12,474	217,854	760,111
469,794	55,161	5,601	244	2,094	63,100	197,337	12,710	747	8,176	218,970	751,864
463,322	47,906	6,878	274	1,516	56,574	171,382	13,545	837	5,731	191,495	711,391
489,356	49,395	8,146	413	2,392	60,346	176,708	15,524	1,260	5,510	199,002	748,706
454,288	46,356	8,715	475	2,553	58,099	165,835	14,660	1,451	5,988	187,934	700,321
431,387	43,317	9,536	442	2,370	55,665	154,963	13,477	1,348	5,403	175,191	662,243
383,099	40,278	8,930	403	885	50,496	144,091	11,883	1,232	2,363	159,569	593,164
352,355	37,238	11,420	448	1,324	50,430	133,219	8,950	1,367	3,732	147,268	550,053
323,315	34,197	15,512	439	1,219	51,367	122,337	6,925	1,340	3,976	134,578	509,260
299,945	31,165	17,946	575	1,554	51,240	111,493	6,464	1,754	4,950	124,661	475,846
266,870	28,134	16,881	782	1,327	47,124	100,648	9,617	2,388	3,916	116,569	430,563
254,686	25,092	14,744	279	1,539	41,654	89,767	15,441	780	5,577	111,565	407,905
228,155	22,056	17,825	321	1,595	41,797	78,903	21,994	793	5,705	107,395	377,347
204,403	19,014	22,272	358	1,519	43,163	68,022	28,130	888	5,568	102,608	350,174
181,678	15,983	21,762	346	1,485	39,516	57,177	30,477	833	5,871	94,358	315,612
158,146	12,951	18,913	279	1,462	33,605	46,333	24,137	657	5,707	76,834	268,585
131,355	9,910	15,130	209	1,495	26,744	35,451	17,918	483	5,760	59,612	217,711
102,671	6,871	11,241	133	1,617	19,862	24,579	11,712	300	6,147	42,738	165,271
65,889	3,831	6,016	60	2,205	12,112	13,707	5,514	135	8,273	27,629	105,630

Note (A): 7 Months

A. I determine that this is not a true cost but a cost under contract.

Q. And the contract by its terms definitely puts that limitation as to what is to be included? That is what you stated?

A. That is right.

Q. Of course, the very theory of accounting is to record the correct cost?

A. The correct cost is recorded, not the true cost.

Q. What distinction do you want between true cost and correct cost?

A. I don't think any accountant, engineer or lawyer knows exactly what true cost is.

Q. A lawyer has to take that information from the accountant. What is the difference between your true and correct cost?

A. I don't know because I don't know what a true cost is.

Q. Then you don't know the difference between the two?

A. Well, I don't know the meaning of one, so I can't give you the difference between one and the other.

* * * * * *

Mr. Lusk further testified: (Vol. XLV, pp. 6190-6192.)

Q. Now let's go to Statement 2, Exhibit 164.

A. Yes.

Q. As I take it the items of rentals on operated leases—

A. Unoperated leases.

Q. Yes, unoperated leases. Column 3 is the same as that concerning which Mr. Rhodes testified, and he stated that he based his information there on that received from Mr. Watson as to what the rentals on unoperated leases would be projected into the future?

A. Yes.

Q. The other is as per book?

A. That is correct.

Q. Unadjusted?

A. Unadjusted.

Q. And I take it the same applies to Column 5, "Drilling Dry Holes." I notice in your exhibit the three items at the top of Column 5 that have the capital C affixed to them refer to what you call loss on sale of Cliffside property.

A. That is correct. In Exhibit 91 those three items for each of the years 1929, 1930 and 1931 are set out separately and I only put them in here to save a column.

Q. Why is this under "Drilling Dry Holes"?

A. Just as I explained, I put them in the classification with capital C for the purpose of saving an extra column.

Q. That is the only purpose?

A. Yes.

Q. Because otherwise they really wouldn't have a relation to it?

A. No, they would have no place in that column if it were related to strictly dry holes.

Q. You, of course, made no investigation of your own as to either the 1939 or subsequent figures, particularly as to the projections other than what Mr. Watson stated would be required?

A. With this exception: The amount shown in 1940, $49,-100 is an actual expenditure for drilling the Amarillo No. 1.

Q. That is in 1940?

A. That is right.

Q. But the others are based on Mr. Watson's estimate alone?

A. They are Mr. Watson's estimates.

* * * * *

Mr. Lusk further testified: (Vol. XLV, pp. 6206-6213.)

Q. Now, then, your "C" notes, in Column 4. In what way would any change in the drilling program affect them?

A. It wouldn't affect the "C" notes at all. The "C" notes are issued for general property like drilling and cleaning equipment—not drilling and cleaning equipment, general property in connection with Bivins camp, any general property in connection with the Masterson camp.

Q. Now, what are the mechanics? How does the company go about negotiating loans or borrowing of money under those two methods?

A. Which two methods?

Q. The "A" and "C" notes.

A. Oh, the "A" and "C" notes. Well, whenever the Canadian River Gas Company contemplates any building or the addition of any property, why, they just receive the money from the Colorado Interstate Gas Company.

Q. And issues what kind of a note?

A. Well, they issue a promissory note.

Q. Payable over what period of time?

A. Well, from 1928 up to 1938 it was 120 months. The

notes matured in 120 months. Now, subsequent to 1938, up until the time the contract expires between the Canadian River Gas Company and the Colorado Interstate Gas Company, those notes are issued with a flat maturity date of June 1, 1948 and if the note is issued in January of 1948, that note must be retired in six months.

Q. Well, they all have flat maturity dates of June 1, 1948?

A. From now on, yes, sir—from 1938 on.

Q. Well, are the notes payable on or before or are they absolute as to interest?

A. They are absolute.

Q. So if they don't—if the company doesn't continue to need that particular amount of money before the expiration of the maturity date of the note, they would still have to pay the note interest?

A. That is right.

Q. At the rate of six per cent per annum?

A. Yes.

Q. What is the necessary purpose of making the maturity date absolute?

A. The expiration date of the contract.

Q. If they wanted to make the maturity dates absolute, why didn't they make the interest portion of them on or before so that if they wanted to retire them before that time they wouldn't be obligated to continue the interest?

A. Well, the Canadian River itself, as the Canadian River, does not have any funds with which to retire any of the debt.

Q. Well, now, that's coming back to that assumption that you made a while ago that it is a non-profit company. Are you just applying that term to these operations as disclosed in your exhibit?

A. That's what this contract anticipates.

Q. Well, you broaden that, though, when you stated that it was a non-profit company—Canadian River.

A. No, I didn't.

Q. Didn't you make that statement?

A. I made that statement, yes, but I didn't broaden it or amplify it or expand it.

Q. Then I was correct in assuming that you stated it was a non-profit company?

A. I did.

Q. And you weren't limiting that statement just to this contract?

A. That's what the contract anticipates.

Q. Are these the only operations that are carried on under this contract—strike that.

The operations that are carried on under this contract by Canadian River Gas Company are the only operations of Canadian River Gas Company?

A. I think so.

Q. Well, then, if it is a non-profit company, how does it happen to have a surplus?

A. That is easily explainable.

Q. All right.

A. That surplus is due to the difference between the internal revenue bureau and the company in the methods of computing the depletion and depreciation.

Q. Is that the only reason that it does have a surplus?

A. The origin of that surplus, and that is the nature of that surplus.

Q. And has that been the history of it?

A. That is the history of that surplus.

Q. Then prior to that time it had no surplus?

A. In 1928 the Canadian River Gas Company and in 1929 the Canadian River Gas Company had a deficit.

Q. And subsequently, the only reason attributable to that surplus is this new method of calculation?

A. That's right. The Canadian River Gas Company I think I stated could have eliminated that surplus very readily and handily by staying away from the internal revenue bureau's dictates of how depletion and depreciation should be calculated. They didn't have to follow that, but for some unknown reason they elected to follow it.

Q. They had the option to do one or the other?

A. That's right, and at the present time the Canadian River Gas Company can reverse that surplus.

Q. They haven't in fact reversed it?

A. No, but they can.

Q. Are you certain that they can, Mr. Lusk?

A. Well, if Mr. Hendee or Mr. Shields or Mr. Dougherty told me to reverse that surplus I would reverse it in one fell swoop.

Mr. Dougherty: You are talking about reversing it on the corporate books; that would have no change on the income tax books, however?

The Witness: No.

Mr. Dougherty: You wouldn't make a reversal so far as the internal revenue is concerned?

The Witness: They don't care about it. They have collected their pound of flesh under their interpretation and they are out.

By Mr. Lange:

Q. Now, going back to those A and C notes, as I understand it, then both series of notes under the present plan, their maturities are fixed at June 1948?

A. That's correct.

Q. And they all bear a fixed rate of interest which would be applicable during the entire life of the note until their maturity date?

A. Oh, no.

Q. All right, in what way is that modified?

A. That's interest on a reducing balance all the time.

Q. Well, on the reducing balance?

A. Yes.

Q. If, however—wait a minute—what do you mean by "reducing balance"?

A. Well, if you gave me a series of notes for ten months—

Q. All right.

A. —and each bore and each note matured at the rate of $10 for each month, you wouldn't want to pay me interest on $100 when you paid off six notes.

Q. As I understand the way those notes are issued, the company has a certain drilling program at a certain particular time they determine that they may need $30,000 or $6,000 or whatever it would take to drill a certain number of wells and equip them, and once they determine that or whenever they determine that they issue a certain series of notes, don't they?

A. No, sir. I explained before that when the company launches on a well drilling program or a gathering line program or any other program for expansion, it all goes through an open account first. Then when that particular expansion is complete, the notes are issued.

Q. Well, during the time, though, they are carrying on those drilling operations and the funds are necessary to be

extended, until their program is completed they have that money on open account?

A. That's correct.

Q. And they are paying the same rate of interest on that money as they do on the notes, at six per cent per annum?

A. That's right.

Q. When they complete the certain drilling program, then as I understand it, at that time they execute this series of notes?

A. That is correct.

Q. And how are those notes payable, serially? In what manner?

A. Well, after 1938, as I explained before, there is a definite maturity date—June 1, 1948—and if a note is issued in 1943, for instance, for $100,000 for drilling, that note will mature in 1948.

Mr. Dougherty: Payable in instalments in the meantime?

The Witness: That's right.

Mr. Dougherty: You didn't make that clear, Mr. Lusk. What you do is take the remaining number of months from the date that the note is issued until June 1, 1948?

The Witness: I think I have explained that.

Mr. Dougherty: You haven't explained it to him in your oral testimony.

* * * * *

Mr. Lusk further testified: (Vol. XLV, pp. 6222-6229.)

Q. Oh, I see. Going back on this same exhibit, Statement 7, to the notes, the straight notes under Column 2 applicable to new wells, we find the same situation obtaining there even in more pronounced fashion than that obtaining under Column 11 with reference to the amortization of the debt for compressor station units; isn't that true?

A. That would be true, but the mere fact that in 1947 the straight note amortization amounts to $290,802 doesn't mean that there are $290,802 amortized in an extremely short period. They are falling in those periods and as the time grows shorter and the program for expansion is being continued, then the latter years the rates will be that much higher as far as the amortization is concerned.

Q. All right, let's see what Mr. Watson has to say with reference to his drilling program in Exhibit 94. He proposes to drill a well in 1947. That's approximately $30,000. You, of course, have just one year to amortize that?

A. That's right.

Q. Suppose that there were a drilling of six wells in 1946 at his proposed or estimated figure of around $30,000. That would be $360,000.

A. $180,000.

Q. I beg your pardon, $180,000, and that would have to be amortized over a period of less than two years. Of course, I suppose it would be during that year?

A. That's right.

Q. And in 1945 he estimates the drilling of five wells. That would be $150,000?

A. Correct.

Q. And you would have about an average of two and a half or between two and a half and three years to amortize that.

A. That's correct.

Q. And in 1944 he has six wells. That would be $180,000?

A. Yes.

Q. And you have then three and a half to four years to amortize that?

A. That's correct.

Q. Isn't each of those, particularly as you get closer, an unusually short period to amortize investments of that character?

A. There is no question about it.

Q. And that is done in this instance solely and entirely because of the contract requirements?

A. That's correct.

Q. Then, of course, that drilling program, as I inquired of you before, is based on Mr. Watson's estimate, and any change in that would, of course, accordingly change this estimate as to amortization requirements?

A. That's right.

Q. Now, going back to the basic Statement 2 in the exhibit, the item of interest, that again refers and its basis is in Statement 8?

A. Statement 8, yes, sir.

Q. Now, then, just as an accounting matter, Mr. Lusk, ordinarily you wouldn't include interest as an operating cost or expense, would you?

A. No, not in regular accounting, we don't call interest charges part of an operating expense.

Q. So it is put in this exhibit or computed here purely because of the contract requirements?

A. That's correct.

Q. Now, what interest items are included in that column that are found *basicly* in Statement 8?

A. On the production system we have interest on the bonds, straight notes, A notes and C notes, and the current account.

Q. Now, as I take it, the interest items that appear there—well, first of all your production, under your production system is applicable to bonds through 1939, those are as per books, have been computed out?

A. No, the interest on the bonds can be taken right from the statement.

Q. What is the statement you mean?

A. The company's financial statement.

Q. Well, I mean, how do they get to this Statement No 8? Where is it taken from?

A. Well, I took the entire amount of bond interest paid in each year from 1928 to 1939 and separated between the three systems on the same basis that I separated the amortization of the bonds on Statement 7.

Q. And the interest, then, follows each accordingly?

A. Everything—7 and 8 then follow each other,

Q. And that portion of the projected interest from bonds, 1939, those are computed on the same basis following each projection as to the principal retirement?

A. Not on the bonds.

Q. Not on the bonds?

A. Not on the bonds. There is no change made in the bonds for any future program. It is all taken up through the notes.

Q. Well, now, let's see. I don't quite get this interest projection under bonds. For 1944 to 1947 the bonds remain static during that time. Can you enlighten me on that?

A. Well, the bonds don't remain static. There is a portion of them retired every year.

Q. In what proportion are they retired during those last four years?

A. I am quite sure the indenture takes care of approximately $595,000 a year. Of course, that would reduce the interest during the last few years of 1944, 1945, 1946 and 1947.

Q. Now, do I understand this item of interest is entirely applicable to the bonds and several series of notes?

A. That is correct, yes sir.

Q. Now, how is that interest ordinarily paid; that is, in practice? In what interest do you make payment of the interest?

A. So far as the cash is concerned, there is no cash transaction between the Canadian River Gas Company and the Colorado Interstate Gas Company, as it is just a book entry.

Q. It is just a book entry?

A. Yes.

Q. When are those book entries made?

A. The interest is computed on the straight notes and all of the A notes and as the instalments fall due are on the instalment due, each month the interest is transferred from one company to another by means of a single book entry.

Q. Now, then, whenever the company determines to enter upon a construction program with reference, for instance, to the drilling of wells, and equipping them, say, having direct reference to Mr. Watson's program, for instance, how do they go about determining at what particular period of time or what part of the operation they want to issue a series of notes? He has a program projected over a period of some seven years which I suppose he would contemplate carrying out. At what stage of that program would you determine to issue a certain series of notes?

A. We wouldn't determine anything until the wells were finished.

Q. Under that there wouldn't be any notes issued until 1947?

A. If there wasn't any well-drilling program until 1947—

Q. But the program is beginning in 1941. They are going to drill a series—according to his projection—of wells every year.

A. That is right. Those five wells will be completed within that year.

Q. That is what I am getting at. When would they issue their first series of notes to take care of the drilling operation? Wouldn't it be limited to that year?

A. If there were five wells completed under Mr. Watson's program, there would be notes issued for the cost of those five wells.

Q. They would wait until the end of the calendar year 1941, for instance, and the money for the drilling operations would be on an open account basis?

A. No. For the five wells to be drilled in 1942 or 1941—

Q. Let's take 1941.

A. As soon as the well is completed there is a note issued for it.

The Trial Examiner: For the one well?

The Witness: For the one well.

While they are drilling the first well they are drilling the second well, the third well, the fourth well, and the fifth well, but those wells are not completed on the same day or same time. One might be completed in February, another in March, another in April and another in May. As soon as those wells are completed the amount expended for those wells which appears in open account is then closed out of open account and thrown into notes.

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58. Sales Price of All Gas Sold to Colorado Interstate at Clayton Junction, Except Its Direct Sale Gas, on Cost Basis Computed Under Contract.

In Exhibit 167, Witness Lusk shows computed costs of Canadian under basic contract terms of resale gas delivered at Clayton Junction to Colorado Interstate, 1928 to 1947, inclusive.

He explained (Vol. XLVI, pp. 6345, et seq.) that in Exhibit 164 the computed cost under basic contract terms of all gas delivered at Clayton Junction to Colorado Interstate was shown, and that this exhibit shows the annual cost of resale gas only; otherwise, it is identical with Exhibit 164.

He took Exhibit 165, Witness Rhodes, and separated that exhibit between production, gathering, transmission and compressing systems. His figures represent the cost of reduced operations, and include change in the size of the pipe line from Bivins Station to Clayton Junction, from the 22" pipe line to a 20" line, and the reduced facilities in the field and in the gathering system due to the reduced quantities of gas (p. 6346).

The computed cost under basic contract terms, of resale gas delivered at Clayton Junction to Colorado Interstate, 1928 to 1947, inclusive, shown in Statement 1 of Exhibit 167, is as follows:

Year	Production (B) (1)	Gathering (B) (2)	Transmission (B) (3)	Total (4)
1928(A)	$ 58,443	$ 14,425	$ 62,224	$ 135,092
1929	289,616	95,091	259,202	643,909
1930	646,133	156,831	464,746	1,267,710
1931	805,787	116,457	446,370	1,368,614
1932	738,179	97,793	447,600	1,283,572
1933	618,066	88,856	424,984	1,131,906
1934	452,911	64,254	421,666	938,831
1935	419,484	56,160	373,431	849,075
1936	401,147	62,574	402,180	865,901
1937	430,365	70,080	406,003	906,448
1938	431,795	74,469	424,728	930,992
1939	435,047	74,732	445,095	954,874
1940	448,837	79,683	524,606	1,053,126
1941	431,753	86,236	498,882	1,016,871
1942	389,910	79,645	490,305	959,860
1943	377,127	77,883	545,324	1,000,334
1944	369,123	75,356	557,147	1,001,626
1945	363,761	74,608	538,442	976,811
1946	411,150	86,344	523,319	1,020,813
1947	806,314	241,083	508,518	1,555,915

Notes: (A) 7 Months.

(B) Amounts in Columns (1), (2), and (3) from Statements Nos. 2, 3, and 4, respectively.

On cross-examination MR. LUSK testified: (Vol. XLVI, pp. 6344-6351.)

Q. Mr. Lusk, the use of the phraseology "resale gas delivered at Clayton Junction," I assume refers to the gas or that part of the gas actually delivered at Clayton Junction which is taken by Colorado Interstate Gas Company and then resold to public utility customers in the State of Colorado?

A. For resale, that's correct.

Q. And also the Colorado-Wyoming Gas Company?

A. That's right.

Q. In other words, there has been taken out the quantities which Colorado Interstate Gas Company sells directly to industrial consumers which consumed that gas?

A. That's correct.

Q. I think you might read into the record this one-page preliminary statement first.

A. "Exhibit No. 164 in this proceeding shows year by year Canadian River Gas Company's computed cost under basic contract terms of all gas delivered at Clayton Junction, New Mexico to Colorado Interstate Gas Company under the contract between Canadian River and Colorado Interstate of January 3, 1928 which is Exhibit No. 16 in this case. Had the gas delivered to Colorado Interstate Gas Company at Clayton been limited to its requirements of resale gas, then lower total annual costs of the gas would have resulted. This exhibit with its attached statements shows such annual costs of resale gas otherwise identical with Exhibit No. 164 in this proceeding dealing with all gas.

"It is shown by Column (4) of Statement No. 1 that in 1939 the contract cost of resale gas delivered at Clayton Junction, New Mexico to Colorado Interstate Gas Company amounted to $954,874 and that it had fallen from a maximum of $1,368,614 in 1931. These figures show a saving in 1939 of $266,134 below the corresponding cost of all gas referred to above."

Q. In what way is this Exhibit 167 related to Mr. Rhodes' recent exhibit 165 which is entitled "Cost of Operation of Canadian River Gas Company for Resale Gas"?

A. Well, I have taken in this exhibit Mr. Rhodes' Exhibit 165 and using all of the data contained in this exhibit

and all of his computations and separated Mr. Rhodes' exhibit between the production, gathering and the transmission and compressing system.

Q. Do your figures, therefore, represent the cost on reduced operations and does that include such change in the size of the pipe line from the Bivins station to Clayton as computed by Mr. Rhodes previously?

A. That is correct.

Q. That is on the basis, I think, of what he termed the 20-inch line?

A. That is correct.

Q. It involves that change in the physical facilities of transmission?

A. It involves the changes of reducing the size of the 22-inch to 20-inch from Bivins to Clayton and involves the reduced facilities in the field and in the gathering system and whatever changes are made due to the reduced size of the line and the reduced quantities of gas in the compressing stations.

Q. I note in your Exhibit 167, Mr. Lusk, Statement 2, under Column 5, that there is apparently that same typographical error with a capital C after the figure $61,095 which we found in Exhibit 164?

A. That's correct. In my copy I have eliminated that and made a note when I came to the exhibit, or came to this statement, I was going to make that same reference that you are making now.

Mr. Dougherty: If the Examiner please, may the reporter be directed to eliminate that capital C where indicated?

The Trial Examiner: Yes, we'll have the reporter do that.

By Mr. Dougherty:

Q. Are there any other typographical errors in this exhibit?

A. I don't know of any at the present time.

Q. Is the general form of Exhibit 167—by that I mean the form of the statements and the subject matter, similar to 164?

A. Yes, sir.

Q. So that if you took Exhibit 164, Statement 1, that it is similar to Statement 1 in Exhibit 167?

A. That's correct.

Q. And the difference between the totals on Statement No. 1 in Exhibit 164 and those on Statement No. 1 in Exhibit 167 would represent the amounts that have been estimated as being savings or amount that would not have to have been expended if the lesser quantity of gas had been sold at Clayton?

A. In Statement 1 of Exhibit 167 is purely resale gas, and Statement 1 of Exhibit 164 is all gas, and the difference between the two represents the difference of direct sale gas.

Q. Now, are these subsequent statements in Exhibit 167—or do the subsequent statements in Exhibit 167 deal with the same character of costs as the statements in Exhibit 164 which bear the same numbers?

A. Yes, sir.

Q. So that by taking Statement No. 2 or any other number in the two exhibits the comparison can be made of the different amounts which have been estimated in both exhibits?

A. The statements in Exhibit 167 and the statements in 164, ten in number in each case, correspond with each other. One is resale gas and the other is all gas.

Q. In ~~general, then~~, that is the difference in dollars that are shown, and I take it that the total dollars in Exhibit 164 are greater in most, if not all, instances than in 167—

A. That's right.

Q. And that represents what might be called the incremental cost as computed which the company incurred—the Canadian River Gas Company incurs in providing this additional quantity of gas which it actually does sell to Colorado Interstate at Clayton; that is, the quantity which is then resold by Colorado Interstate to direct industrial customers?

A. They are both taken from Mr. Rhodes' Exhibit 163 and 165, and as Mr. Rhodes terms it, it is the incremental cost of the gas delivered at Clayton for direct sale purposes, the difference between the two statements.

Q. The basis of the statements is incremental cost rather than some allocation on a volume basis?

A. That's correct.

Mr. Dougherty: I think that is all the direct I have, if the Examiner please, because it is substantially the same as Exhibit 164, and I think that brings that out.

The Trial Examiner: Very well, Mr. Dougherty.

Cross Examination.

By Mr. Lange:

Q. Mr. Lusk, in connection with your cross examination on Exhibit 164, I think it was very definitely fixed—or the facts were very definitely fixed, that this study in 164 as a cost was definitely limited as per contract of January 3rd, 1928.

A. That's right. It is based on the contract, that's right.

Q. And reflects your study of costs of gas within the limitations of that contract?

A. That is correct.

Q. Now, then, I take it in this Exhibit 167 wherever you speak of costs or wherever you make a comparison with a reduction as you set forth in the written statement accompanying this Exhibit 167, particularly the last sentence, that that means a reduction also within the limitations of the contract, to start off with?

A. I thing that's right, yes.

Q. And then applied to resale gas alone?

A. That's correct.

Q. So this study in 167, first of all, is confined to the limitations of the provisions of the contract of January 3rd, 1928, as to all of which applies to all gas, and then on the additional assumption that only resale gas is involved?

A. I think you mentioned the wrong exhibit. Did you say 167? Did you say 167 was resale gas? That's 164.

Q. 167 applies to resale gas and 164 to all gas.

A. That is correct.

Q. Otherwise, those assumptions are correct as stated?

A. That's right.

* * * * * * *

Mr. Lusk further testified on cross-examination: (Vol. XLVI, p. 6358.)

Q. Now, then, throughout this whole exhibit, of course, you have necessarily the additional assumption that you

did not have in your Exhibit 164 with respect to estimating costs, because in Exhibit 164 you took account of all of the gas under the contract and in Exhibit 167 you are confining it to the contract on the additional assumption that it is just resale gas?

A. That is correct.

Q. So I will ask you whether all of the principles that you discussed in 164 as applicable there, you also adopt as applicable to the computations in Exhibit 167?

A. Yes, sir.

* * * * *

Mr. Lusk further testified on cross-examination: (Vol. XLVI, pp. 6362-6365.)

Q. Now, then, with reference to Column 8, Amortization of Debt, according to your Exhibit 164, Statement 2, in what respect do the figures in Column 8 of Exhibit 167 differ from the figures of Column 8, Exhibit 164?

A. There are slight differences that crept in on these exhibits. One is in the calculation of the amortization of debt in the production system with the resale gas—with the direct sale gas eliminated and with certain of the properties eliminated due to the resale gas program. The proportion of the bond applicable to the production system was raised slightly because the overall property base was reduced and the production system percentage of the property was not reduced in proportion. It was a change in the overall base. That made these calculations for resale gas slightly higher in some years.

Q. In arrriving at the figure in Column 8, Exhibit 167, you necessarily had to depart from the method of calculations as set forth in the contract in determining amortization, didn't you?

A. No, sir.

Q. You don't?

A. No. We take the amount of amortization as set forth in the contract and apply the difference due to the reduction in property. The principle followed is the same.

Q. And in determining the amounts to be set forth for amortization of debt under this column, under this proposed estimate, or, rather, under this estimate limiting itself to resale gas only, you of course do not take into consideration and do not in any manner predicate these figures on

what the actual reserves of gas are for the Canadian River Gas Company?

A. None whatever. The application of any reserves for Canadian River Gas Company does not enter into this statement at all.

Q. In other words, in that calculation the same method applies as applied to the calculations on debt amortization in Column 8, Statement 2, Exhibit 164?

A. Yes, sir.

Q. Now, then, under Column 10, Federal Income Taxes, I notice that the year 1947, in it you have a sizable increase in the tax. How did you get that? How do you account for that?

A. That is the same as the increase in Statement 2 of Exhibit 164. It is due to the elmination of the Chicago load and the consequent reduction in depletion—not depletion, but the constant reduction in the severence taxes and all other forms of taxes incident to the Chicago gas line.

Q. Now going back from 1947 to 1944, in 1944, Exhibit 164, Statement 2, Column 8, you have a minus under your income tax figures showing a loss. You have considerable profit in this statement in Exhibit 167, haven't you?

A. Why, in Exhibit 167 the income tax for 1944 has been computed at $18,460. That is due to the amortization of debt in relation to the depletion and depreciation as taken.

Q. What I am trying to reconcile is that the lowest figure on the total and the profit figure indicated this $18,460.

A. That is different. Under the resale program the difference between the amortization of debt and allowance for depreciation and depletion as allowed by the Bureau of Internal Revenue would be much different than under the all gas program.

Q. That accounts for the difference?

A. Yes, sir.

Q. And under this resale plan you would have a profit indicated by the income tax payments, whereas the loss is indicated under the total statement?

A. That is really not a loss. That is a minus shown to tie you in—the Federal income tax ties into the three systems. It is shown as a minus to the production system in order to tie it all in.

Q. I take it that the calculations that you have made and

resulting in the future set forth in this exhibit in the several statements were made in a similar fashion as those were made in Exhibit No. 164 and as to each statement?

A. Yes, sir.

* * * * *

Mr. Lusk further testified on cross-examination: (Vol. XLVI, pp. 6369-6371.)

Q. I take it that these calculations that appear in Statement 9 of Exhibit 167 were reached on the same basis of the calculations on Statement 9, Exhibit 164?

A. Yes, sir, the same principle was followed throughout both exhibits.

Q. Of course, Mr. Lusk, the company is not in fact operating on the basis as indicated in this cost exhibit. They are not so segregating the items on their books are they?

A. They are segregated into certain proportions of the operating expenses divided between the systems; they segregate taxes by systems; they segregate bonds between two systems; they segregate notes and other evidences of debt between the two systems.

Q. The company is not in fact presently limiting its sale to resale customers?

A. The Canadian River Gas Company?

Q. Yes.

A. The Canadian River Gas Company doesn't make any distinction between resale customers and direct sale customers.

Q. And it doesn't make any sales at all to direct industrials?

A. Not Canadian River Gas Company, no.

Q. It makes all of its sales to—let's see. It is the Colorado Interstate Gas Company, the Amarillo Oil Company—

A. Yes.

Q. And who are the others?

A. Well, the Amarillo Oil Company is divided into several contracts and the Colorado Interstate, and the Clayton Gas Company.

Q. That is right.

A. The Canadian River Gas Company wholesales gas.

Q. Their contracts are in evidence in this proceeding. The main one, of course, we are concerned with is the contract in Exhibit 16.

A. Yes, sir.

Q. Under the terms of which, particularly Paragraph or Section 10, you have arrived at these cost figures that appear in Exhibit 164 and you have related them to resale only in Exhibit 167?

A. That is correct.

Q. But in so far as the Canadian River Gas Company is concerned, it doesn't now nor has it in the past endeavored to limit its sales to resale gas only, has it?

A. No, sir, there is no distinction of gas sales in the Canadian River Gas Company and has not been any since the company commenced operation.

Q. Nor is there any contemplated as far as you know?

A. As far as I know, no.

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59. **Estimates of Natural Gas Reserves.**

Testimony of A. A. HAMMER, Federal Power Commission Engineer, who testified for and on behalf of the Commission.

Mr. Hammer submitted exhibits and other testimony with respect to the original and remaining reserves of natural gas in the Texas Panhandle Field and the reserves pertaining to the acreage owned by Canadian River Gas Company. Mr. Hammer utilized the pressure decline method in computing such reserves. His testimony, Vol. 51, pp. 7049-7123, is as follows:

My name is A. A. Hammer, residence, Washington, D. C., and I am presently employed by The Federal Power Commission as Engineer, and have been so employed since January 3, 1939. I have spent approximately one and one-half years in connection with the present proceedings, which time was consumed primarily with an examination of all the records and the files of the oil and gas division of the Texas Railway Commission at Pampa, Texas, and at Austin, Texas, together with an accumulation of a large volume of sheets and records totaling more than 30,000 photostatic records pertaining to the Texas Panhandle gas field, and in addition, an estimated 10,000 additional sheets that were taken off manually pertaining to the same field. My experience as an Engineer is as follows (Vol. 51, pp. 7049-7053):

A. I am a graduate of Washington State College, the class of 1907. I majored in geology and mining. I took minor work in chemistry and general engineering and from 1907

to 1912 I was employed as a chemist for the Washington Portland Cement Company in the western part of the state of Washington and also a geologist for the State of Washington, working on a survey of cement materials in the state.

In 1912 I went into South America for the Barber Petroleum Company—that is a subsidiary of the Caribbean Asphalt Company—as geologist and engineer doing work in Venezuela and Colombia. I returned to the United States in the fall of 1914. During the latter part of 1915 and the early part of 1916 I did work in the Province of Alberta, Canada, investigating oil and gas problems.

In August 1916 I was appointed to the petroleum division of the United States Bureau of Mines in connection with the development of oil and gas on Indian lands in the state of Oklahoma. This work included the actual supervision of the drilling and completion of oil and gas wells, the conservation of oil and gas, the handling and control of high pressure gas wells, and all allied subjects.

The work in Oklahoma continued until 1919 during which time I did special work for the War Trade Board on oil and gas well equipment in use or in warehouses in Oklahoma and Kansas. I also did special work in connection with the Council of National Defense on surveys of refineries as to production available for the prosecution of the war; also during that period special work was done for the Internal Revenue Bureau in the valuation of oil and gas properties.

In 1919 I was transferred to the state of Texas and opened up the first office for the United States Bureau of Mines—I mean the petroleum division—in that state, and I was in sole charge of that work. It was during the time of the oil boom at Ranger and Burkburnett, Texas, and during that work I assisted the Chairman of the Texas Railway Commission, Mr. Terrell, in the preparation of the first conservation regulations of the state.

In 1920 I resigned from the Bureau of Mines and spent one year with the Sinclair Oil Company as an assistant to the general superintendent on special production problems. In 1921 I went to New York City where I was employed by the then Union Oil Company of Delaware in attempting to reorganize the engineering and geological work.

In April 1941 I was offered—

Q. April 1941?
A. April 1921.

In April 1921 I was offered a position and accepted a job as chief of the geological and engineering staff of the Absaroka Oil Development Company, a subsidiary of the Northern Pacific Railway Company. The company was organized to develop the land grants of that railway company.

In the autumn of 1925 I made my first trip into the Texas Panhandle. About a month was spent there looking over the possibilities in various localities lying adjacent to the present producing areas. I might say in that connection that the Hammond Cattle Company tried to interest us in a ranch that they had in Roberts County lying to the northwest, and having spent a month down there I decided that there was neither oil or gas in Roberts County so I turned the proposition down. That was my first visit into the Texas Panhandle.

Q. Roberts County, Texas?
A. Roberts County, Texas.

Between 1926 and 1930 a period was spent in charge of the geological and development program for the Hurley Oil Company of Tulsa, Oklahoma in West Texas. During this time I became thoroughly acquainted with the geological and drilling problems in West Texas as most of the oil and gas in that general territory is produced from limestone and dolomitic limestone. I acquired more than a passing knowledge of both the reservoir rocks as well as drilling and producing problems.

Between 1930 and 1933 some time was spent in the Rocky Mountain states associated with the Minnesota Northern Power Company, now the Montana-Dakota Utilities Company. This work consisted of the estimation of gas reserves in the state of Montana and the development of gas fields: the examination of new areas, and new markets: these investigations were carried on in Montana, Colorado, Utah, and in the state of Washington.

Between 1933 and 1939 time was spent largely on gas problems in Utah, Colorado and New Mexico, largely in

connection with the development and utilization of the carbon dioxide gases from those states.

Since January 3, 1939 I have been employed by the Federal Power Commission.

Q. As an engineer?
A. As an engineer.

Mr. Spencer: Mr. Examiner, I assume that counsel for the Commission expects to submit here such an exhibit having to do with gas reserves of the Texas Panhandle through this witness.

Mr. March: We have already given you copies of it.

Mr. Lange: Yes.

Mr. Hammer then read into the record the following prepared statement (Vol. 51, pp. 7056 to 7071):

A. This is entitled: "General Statements of the Problem Concerning the Estimate of Gas Reserves in the Texas Panhandle Field.".

"Since the early life of the Texas Panhandle field, many and variable estimates of the gas reserves have been given and in one form or another have been called to the attention of those interested in the natural gas business.

"These estimates have naturally varied from time to time, progressively in years, approaching more nearly a true figure when made by unbiased geologist and engineers, as the amount of development widened over the field and the necessary factual data became more wide spread and dependable.

"In recent years, however, there has been too large a variation in reported estimates, when considered in the light of data now available.

"In order, therefore, to arrive at the best possible estimate of reserves, it became necessary to make an exhaustive research to initiate and carry through a thorough study of all the available data having a bearing on the problem.

"Collection of Basic Data

"The collection of basic data on which to make a study of the gas reserve of the Texas Panhandle Gas Field required the entire time between June 15, 1939 and November 8, 1939.

"During this time five employes of the Federal Power Commission were actively engaged in securing records of essential data having a direct bearing on the subject. By far the larger part of the data were secured from the Railroad Commission of Texas, from official records in the offices of that Commission at Pampa and Austin, Texas.

"In addition to the records of the Railroad Commission, data were secured from a number of the larger companies producing and transporting gas in the Panhandle field.

"More than 30,000 sheets of records were taken by photostatic processes. In addition, the equivalent of an estimated 10,000 sheets were taken by manual copying.

"These records covered all the data on gas withdrawals, and pressure of gas wells, in the files of the Railroad Commission from the time of the first reports up to August 1939.

"They also included the records of all the logs of gas and oil wells which it was possible to secure. By a close estimate, the log record of all wells drilled was found to be complete to the point where less than 100 were missing or unobtainable.

"Other data taken included:

"(a) A large number of Bureau of Mines back pressure curves for the determination of open flow of gas wells were secured both from the Railroad Commission, as well as from a number of the larger gas companies, including those of the Canadian River Gas Company wells.

"(b) Records of the acidization of gas wells were secured from the companies engaged in that work, showing the name and location of the wells, the amount of acid used in treatment, and the increase or decrease in open flow after treatment.

"(c) Reproduction of the records of many hearings before

the Texas Railroad Commission dealing with the problems affecting oil and gas production, wastage of gas, and allied subjects were taken.

"Besides the collection of recorded data, many trips were made through the field, during the summer of 1939, to observe field conditions and to discuss the various problems with field superintendents, engineers and geologists employed by both major and smaller companies engaged in the production of natural gas and oil.

"Much valuable information was secured from these men on questions having a direct bearing on field conditions that affect the question of available gas supply in the field.

"It required the entire working time of six men for a period of eight months to tabulate and allocate the mass of data into a form suitable for a study of the gas reserves in the field.

"Maps and Well Locations

"County maps were secured of each of the counties in which any part of the Panhandle field occurs. These maps are of Wheeler, Gray, Carson, Hutchinson, Moore, Potter and Hartley counties Texas. No maps were secured of Collingsworth or Oldham counties, because of the extremely small portion of those counties lying in either proven or possible gas territory.

"These maps had been brought up to date as to well locations. However, to be sure of the locations, the maps were checked against the locations given on the well logs. The maps were then checked against field maps of various companies as a further check on locations of wells.

"We are, therefore, more than reasonably sure that the well locations on the maps used in the determination of weighted areal pressures are correct.

"Discussion of Detail Problems on the Estimation of Gas Reserves.

"The problem confronting anyone who undertakes of the estimation of gas reserves in the Texas Panhandle field is unusual when compared to the ordinary gas field. Among

the reasons for this statement is the large areal extent of the field, which has not been definitely delimited to date, the occurrence of gas in a dolomitic limestone reservoir over such a wide area, and the inherent variables in reservoir characteristics that are universally found in such reservoirs.

"Without going into the question of the agencies causing porosity in dolomites or dolomitic limestones, all competent geologists and petroleum engineers recognize the fact that there is almost universal variation in voids or pore space throughout any given segment of such formations. The changes in porosity may vary widely from the tiniest void, originally existing, to cavernous conditions.

"What size the voids are is indeterminate because the shape and size of such voids are dependent largely upon the action of solvents existing either in the gas, water vapors or circulating underground waters in past geologic times. In fact, there is ample evidence to indicate solution in one place and redeposition in another in the same general producing formation, as shown by both calcite and anhydrite deposited in limestone or dolomites where small fissures originally existed.

"Furthermore, it is entirely possible that the limestones and dolomites that act as a reservoir for gas in the Panhandle field may have been at one time at, or close, to the surface of the seas in which they were deposited, and hence, in the zone of influence of oxidation, areal, or subareal erosion.

"It is a recognized fact that where competent sediments or strata (component in a geologic sense meaning fragile, not subject to bending or flowage without fracture), such as the reservoir rocks of the Texas Panhandle gas field, have been subjected to stresses that result in major folding and faulting, fracturing of the competent beds occur, resulting in voids between the faces of the fractured material.

"This is more particularly true where the folding is accompanied by major faulting. Where such conditions exist, there is always more or less fracturing, often in the form of parallel faulting extending away from the zone of

major displacement until the point of minimum stress has been reached.

"Under such conditions, where competent beds exist, there occur an indetermine number and size of fractures which make the determination of the percentage of voids or pore space impossible to determine.

"This is particularly true in the Panhandle field in the area where the Canadian River Gas Company acreage is located. This area is delimited on the south side by a fault estimated as having a displacement of from 400 to 800 feet, and is situated principally at the highest structural part of the entire field where the greatest stresses were probably exerted at the time folding took place.

"In a more specific and definite way, Mr. H. F. Stevens, Commission engineer, and I examined numerous cores of the gas producing formation taken during the earlier development of the field, and in no case had it been possible to secure a core through that part of the producing horizon from which the major flows of oil or gas come. Only that part of the core from which little or no gas or oil could be recovered. Determination of porosity from these recoverable portions of the cores would, in no wise, give an indication of the porosity at points of maximum production of oil or gas.

"Since the practice has become almost universal to complete wells with cable tools (percussion tools), there is absolutely no way to determine the porosity of the original producing formation in place in the ground (undisturbed before drilling) from an examination of the crushed sample taken at the well head.

"To anyone realizing these conditions existing in the Panhandle field, it has been realized at all times a futile effort to attempt to determine the porosity of the reservoir beds, in the Panhandle field, as a means for the determination of reserves by the porosity-pressure method.

"Hence, the only method worthy of consideration is the determination of reserves by application of the principles of Boyle's law. That is the determination of the decline in pressure due to the removal of known volumes of gas at a constant temperature.

"During the life history of any large gas field, even such procedure is of minimum value until such time as sufficient development has occurred as to establish a widespread index of data uniformity distributed over the field.

"When that time has been reached, then the production-pressure decline method offers the most reliable method for the determination of gas reserves where conditions are such as those found in the Texas Panhandle field.

"Furthermore, conditions as to subnormal pressure in the Panhandle field more nearly approach the ideal for the application of Boyle's law. That law presupposes a container of constant volume and temperature unaffected by any extraneous pressure, and where at the start the gas is under a constant pressure.

"Since there is no noticeable tendency of water encroachment around the edges of the field, and hence, little or no extraneous pressure being exerted on the gas reservoir, the field closely approaches an ideal condition for the application of Boyle's law in the determination of the gas reserves in the field.

"Five-Year Period Instead of Total Data

"After having analyzed and studied all the available data previously collected, it was found advisable and necessary to utilize only that segment of life history of the field during which it had reached its greatest period of development and during that period when records and factual data were such that a large degree of dependence could be placed in them.

"It was evident that such a period existed only after the Railroad Commission of the State of Texas, moving under a conservation act passed by the state legislature, obtained a large degree of effective enforcement during the year of 1935.

"Prior to 1935, the history of the field is, in modern terms, a 'black-out' of confusion, and little dependence can be placed on recorded data or estimates of wastage of gas.

"Pressures were never uniformly taken, and those taken and recorded meant little because they were usually taken

with steam gauges probably seldom calibrated against either a master gauge or dead-weight tester.

"No uniform pressure base on which to report gas withdrawals existed. Gas was reported on a wide range of pressure bases, no record of which is available in the offices of the Railroad Commission of Texas or elsewhere as far as can be ascertained.

"Since August 1, 1935, the engineers of the Texas Railroad Commission have kept records of such character that they may be readily used as a basis upon which to calculate the gas reserves of the Panhandle field.

"It was, therefore, determined to base the calculation of gas reserves upon the data of record between August 1, 1935 and August 1, 1939.

"Detailed Discussion of Geology Not Necessary.

"Any extensive discussion of the historical or structural geology of the Texas Panhandle gas field is neither necessary or advisable in arriving at an estimate of the gas reserves of that field.

"These features have become so well known that any such discussion would only add material to the record of no essential value.

"It does seem pertinent, however, to state that the producing horizons of the Panhandle gas field are of the same geologic age as those producing gas in the Hugoton gas field.

"These formations are of the lower Permian age. In the Panhandle field they are referred to as the 'Big lime' divided into the brown dolomite, the white dolomite, and a zone consisting of arcosic material, dolomite and limestone. The latter may be of Pennsylvanian age. This point is not certain.

"In the state of Kansas, geologists have assigned the following names to rocks of the same geologic age; named in descending order, they are as follows:

"The Harrington dolomite,
"The Krider dolomite, and
"The Winfield dolomite.

"All are assigned to basal Permian or of Wichata-Albany age as described for central Texas.

"Water Conditions

"There is very little or no effective water movement in a true sense of edge-water encroachment.

"During the summer of 1939, Mr. H. F. Stevens and I inquired on many occasions of geologists, field superintendents and others, and found no one who had any idea that water encroachment from the edge of the field was serious, or even noticeable. Neither did we see any evidence of excessive water being produced from oil wells. What danger there is in the field from water encroachment is brought about by improper completion of wells and inadequate repair work to shut out bottom water. These cases are few in number, so that actually there is no serious water trouble in the field.

"General Statement of Method Used

"The method employed for determining gas reserves by the construction of isobaric maps, the determination of weighted average pressures therefrom, and the utilization of accumulated production against the weighted pressures naturally assumes the following conditions:

"1. That development or drilling has been sufficiently wide-spread to give an index of characteristics of the field;

"2. That there has been a sufficiently long history of production to the point where wide-spread indexes have been established as to the volumes removed and the resulting pressure decline;

"3. When such a life history has been established, then the field, or any part thereof will continue to follow the same characteristics throughout the future life thereof, as has been established in the past unless seriously affected by mechanical condition of the wells.

"The method used in the determination for the gas re-

serves under Canadian River Gas Company lands is the same as that used for the determination of the reserves for the entire field.

"This method is based on Boyle's law, which states that the volume of any given weight of gas at constant temperature varies inversely as the pressure. Briefly the steps taken to arrive at a determination of reserves are as follows:

"1. The construction of isobaric maps for a period of five years, on 10-pound intervals, from 1935 to 1939, on county maps of a scale of 4,000 feet per inch;

"2. The division of the maps into areas or quadrants;"

That term "quadrant" there I might explain. We had to have some term applicable to the areas so we simply chose that name. It hasn't any particular significance except that it refers to areas.

"3. Determination of quadrant areas and isobar areas by use of planimeter;

"4. Calculation of weighted average pressures for each year for each quadrant;

"5. Compilation of production for each quadrant yearly for the five-year period, accumulatively;

"6. Balancing these previously obtained values for each quadrant with like values of immediately adjacent quadrants where the configuration of isobars indicate possible effective movement of gas either to or from the quadrant in question;

"7. The determination of production per-acre-pound decline on the entire effective area;

"8. Utilizing this production per-acre-pound factor in arriving at the reserves for the quadrant in question by applying it to the weighted average pressure decline in the quadrant in question times the total quadrant acreage;

"9. The determination of the acreage of the Canadian River Gas Company in the quadrant, and the application of the same principal to that acreage."

Mr. Spencer: How large is a quadrant?

The Witness: They vary somewhat in size.

Mr. Spencer: They are not uniform in size?

The Witness: Not exactly uniform, no.

"To be more specific about the method of balancing each quadrant against adjacent quadrants where isobar configurations indicate effective movement of gas, calculation of the production per-acre-pound decline, if based solely on the production from wells in that quadrant alone as against the weighted pressure of the quadrant, indicated a volume removed per pound in pressure drop clear out of proportion to that of adjacent areas.

"If there were gas moving into the quadrant from outside its boundaries, the production per-acre-pound would be high in relation to the acreage in the quadrant. If, on the other hand, gas were moving out of a quadrant, the per-acre-pound would be low. If the quadrant data alone were used, the results obtained would be an indication of availability of supply to the then existing wells in the quadrant, rather than indicating reserves in place. It is for this reason, it was necessary to balance quadrants, or areas adjacent to the one, together with the one in which it was desired to estimate the gas in place as the reserves in place.

"At this point, it should be pointed out, very definitely, that only by determining the available reserves existing in distinct and separate parts of the field can there be an estimate of reserves established applicable to any given productive local acreage.

"Averages of this field, as a whole, are always erroneous and misleading for the reason that by striking an average over a field of the size of the Panhandle field, gas is automatically assigned to areas that do not have the indicated reserve. For example, suppose two areas of equal size, one located some place in the eastern part of the field, and the other in the western part. The one in the west shows a reserve remaining of 26,000 Mcf. per acre, and the east shows a reserve remaining of 6,000 Mcf. per acre. The average would be 16,000 Mcf. per acre. Thus, 10,000 Mcf. would be deducted from the area of high reserves, and

10,000 Mcf. added to the area of low reserves. Under such a calculation, no one would be so gullible as to believe that a proper allocation of reserves had been made as to the gas bearing lands in the two localities.

"Furthermore, it is axiomatic that in anything made up of components having diverse characteristics, an average based on the whole is fallaceous and invalid for the reason that it does not weigh in the characteristics of its diverse component parts.

"Minimum Estimates

"The estimate is a minimum estimate because:

"1. Stabilization of pressures are seldom if ever reached during the 'closed-in' period prior to determination;

"2. During the period used for determination of reserves, only metered gas was employed. No estimate of wasted gas was made;

"3. The pressures were not calculated to reservoir conditions, but were well-head gauge pressures;

"4. Utilizing a 25-pound abandonment pressure well-head gauge, necessarily means a higher weighted pressure, because there would be no such well-head pressure if there were no high pressure at undrilled points. In other words, to have 25 pounds well-head gauge pressures at abandonment, necessarily indicates a pressure differential between the face of the producing formation in the well as against undrilled areas:

"5. Consideration was given to the deviation from Boyle's law, but was not applied. Its utilization would have given a somewhat higher result."

By Mr. Lange:

Q. Mr. Hammer, in connection with your work on this assignment in estimating gas reserves on the acreage of Canadian River Gas Company, I will ask you whether you prepared an exhibit entitled "Derivation of Weighted Gas Pressures"?

A. I have.

Q. Is this the exhibit I am now showing you?

A. That is right.

Mr. Lange: Will the stenographer please identify it?

The Trial Examiner: It will be marked for identification as Exhibit No. 179.

(Exhibit 179, Witness Hammer, marked for identification.)

Mr. Hammer then identified Exhibit 179 which was subsequently admitted in evidence, which Exhibit consists of a map prepared under his supervision and direction. This map portrays the Texas Panhandle Oil and Gas Field. The outlines of the map were taken from maps prepared by the Texas Railway Commission. The particular map is a reduction by photostatic process of original county maps that were on a scale of 4,000 feet to the inch. The Roman numerals on the map indicate the divisions or quadrants for each county.

The witness then read into the record a description of the map as follows (Vol. 51, pp. 7073-7085):

"1. Base Maps and Boundary Determinations:

"A. Base Maps:

"The base maps for the construction of closed-in wellhead isobars of the Texas Panhandle field are the county maps of the Browning Map Company, drawn to a scale of one inch equals 4,000 feet.

"Five sets of the county maps covering the Panhandle field were necessary—each set representing the pressure configuration of the summer of each of the years considered. Each set includes maps of the counties off Potter, Moore, Hartley, Hutchinson, Carson, Gray, Wheeler, and portions of Oldham and Collingsworth counties.

"B. Delineation of the Field Boundary:

"The first operation was the necessity of delineating the limits of gas productivity—the field boundary, thereby blocking out the area considered to be productive or potentially productive.

"The field boundary as determined and used by the Railroad Commission of Texas as of 1938 served as the boundary used for this reserve estimate. The field boundary was

carefully drawn upon each set of maps, care being taken to follow the Railroad Commission location exactly.

"On the northeast flank of the field both the field boundary and the gas-oil boundary, as delineated by the Railroad Commission, were plotted. In all cases the isobars were carried only to the gas-oil boundary upon the assumption that the inclusion of the area northeast of the gas-oil line, in the light of the lack of appreciable metered gas volumes and absence of closed-in wellhead pressure data, would introduce error. As far as can be determined, this area is restricted to oil production, with little evidence of potential gas productivity.

"One alteration of the field boundary is to be noted. March 30, 1938, the Stokely & Savage well, C. H. Beigel No. 1, was completed as a gas well in Section 63, Block 23, H. & G. N. R. R. survey, near the east south central border of Gray County. This well, having a closed-in wellhead pressure of 406 pounds in the summer of 1939, lies approximately 1¼ miles southwest of the field boundary as located by the Railroad Commission of Texas."

I might say the term "southwest" there means if it goes out west of the boundary it put it outside the boundary they previously had.

"It became necessary, therefore, to relocate the boundary in this area. The approximate position of the relocated boundary in that area is represented by the heavy dashed line southeast of the solid heavy line representing the Railroad Commission boundary. From available structural data, consideration of well logs of the adjacent wells and structural maps, it appears probable that potential gas reserves extend southwest of Gray County to the vicinity of the town of McLean. These data seem to indicate that a structural high exists in this area with porosity and productivity in strata existing down to approximately 400 feet above sea level.

"II. Pressure Data and Construction of Isobars

"A. Sources and Tabulation of Pressure Data:

"The closed-in well head pressures used were derived from photostatic copies of the production-pressure records of the Railroad Commission, supplemented by such pressure data

as were available from various company records. The pressure values were checked on both form 3 records and company records, wherever possible. In cases of serious discrepancies in pressure data, additional verification was requested from the company controlling the well under consideration.

"The pressure data were tabulated by wells for the 5-years under consideration, the 5 years from 1935 to 1939, inclusive, and each pressure was plotted at its well location on the county maps for each year. In all cases summer pressures were used, taken in July, August, and September.

"When it was observed that the recorded pressures of a well appeared to be erratic and fluctuated between high and low values over a period of time, special note was made of the pressures. Then the production history of that well was tabulated for the intervals between the dates of the recorded pressures in order to correlate withdrawal volume with pressure change. This procedure was extended to adjacent wells which might conceivably have exerted some influence upon the pressures under consideration. Also the log of the well and its history were consulted in order to note the effects that the mechanical condition of the well might have upon the pressures recorded. When it was observed that a well having a low pressure recorded one year showed a higher pressure in succeeding years, with no evidence of heavy withdrawals having depressed the pressure; it was assumed that the mechanical condition of the well was responsible or that the recorded low pressure was an error of measurement or recording. In such cases the position of isobars in the vicinity of the well were determined by the pressures of adjacent wells and the general isobar configuration of adjacent areas.

"B. Construction of Isobars:

"The equal pressure contours or isobars, based upon the plotted closed-in wellhead pressures, were drawn at 10-pound intervals. The procedure of drawing isobars through the plotted pressures is based upon the equal spacing of isobars according to a predicated uniform slope decline of pressure over the distance between the locations of the pressure measurements. That is, the pressure differential between the

two wells over the distance of separation of the two wells is contoured by equal map spacing of the 10-pound interval isobar lines.

"The various county maps for the five-year period 1935-1939 were carefully isobared according to the above procedure, except in those areas now dominantly oil producing; where closed-in well head pressures were scattered or almost entirely lacking. The immediate area adjacent to Borger, in the south central portions of Hutchinson County and the northwest and north central portions of Gray County are such areas. In these areas the recorded well pressures are the lowest in the field and tend to fluctuate erratically, with the records of the individual wells being characterized by pressure measurements scattered through the past history of the well at odd intervals and with frequent gaps. Under such circumstances weighted average pressures were determined for these 'oil areas' by noting the average pressures of areas of equal well density and similar pressure stage, and weighting these pressures by their areal distribution.

"In northern and western Moore County, Hartley County, Potter County, and Carson County are areas which, by the presence of wells at substantial distances from the field limits having pressures only slightly depressed from 430 pounds, and from the isobar spacing and configuration, appear to be undrained and at 430 pounds well head gauge. By extrapolating the isobar pressure decline slope of the areas under consideration to 430 pounds, isobar lines of 430 pounds were constructed. The position of this 430-pound line delimits approximately with the best accuracy possible, the remaining areas of substantially virgin field pressures.

"III. Possible Isobar Map of the Texas Panhandle Gas Field as of the Summer of 1939.

"Upon the completion of the isobaring and planimetering of the individual county maps, each map was photographically reduced approximately one-quarter in size and a mosaic of the whole Panhandle field made. This composite of county maps was then photographed and an enlarged negative made, from which blue line prints could be produced.

"The individual county maps upon which all isobaring and

planimetering was done were carefully matched and the isobars connected across the county lines. The matching of counties is virtually perfect where no errors in the original drafting of the maps are present.

"There are some areas in which appreciable drafting errors on the original maps are evident; the most marked discrepancies occur in the vicinity of the junction of Hartley, Moore, Potter, and Oldham Counties at the extreme western end of the field.

"The county map of Moore County was drawn in such a manner that the county line included portions of sections actually located in Potter County. The Potter County map, on the other hand, has the county line placed accurately with respect to the various sections. Hence, as can be seen, the sections and isobars on either side of the Moore-Potter County line do not match exactly, and an excess of acreage exists in Moore County on the Moore County map. Also the Potter County map is slightly off scale and skewed somewhat with respect to the north and south lines of the field.

"These discrepancies in drafting produced no errors in the isobaring or calculations, as care was taken to match the county lines of Potter and Moore correctly by overlapping when the isobars were connected across the county line. This overlapping is made evident by noting that on the composite map the isobars adjacent to the county line in western Moore and Potter stop short of the limits of the individual maps, but if the maps were overlapped in such a manner that the isobars joined, then each section and the county line would be in correct relationship one to the other.

"The skewness of Potter County precludes the overlapping of the Moore and Potter Counties of the composite map, without disturbing the continuity of the other boundaries of Potter County with adjacent counties. However, the smaller side of Potter and the skewness were balanced out as exactly as possible through the planimeter factor, and similarly the acreage of Moore County was reduced to the correct value by its planimeter factor and by planimetering only up to the true position of the county line, with respect to the individual sections.

"Such errors as may have resulted are extremely small

and will always be present in drafted maps. Invariably on all maps inspected, including the maps furnished the Commission by the Canadian River Gas Company, it was observed that the sections adjacent to the county lines in Potter and Moore Counties are reduced and subnormal in size.

"For example, Section 25, Block PMc, E. L. & R. R. Survey straddles the Moore-Potter County line and is labeled as being 662.6 acres. Its map area is 1.292 sq. in. In contrast, Section 33, E. L. & R. R., Block PMc, Moore County, is labeled 640 acres with a map area of 1.531 sq. in. The larger acreage unit has the smaller map area.

"It is to be remembered that the detailed configuration of any map is an approximation to the survey data, and that particularly in this region the survey data and general property lines leave much to be desired with respect to accuracy.

"The probable error in acreage as determined for Quadrant III Potter by planimetering tends to yield a slightly smaller acreage, which in the calculation of reserves tends to give a larger remaining reserve figure. This tendency is compensated for through the general tendency of the method to yield a minimum estimate. The net error is probably substantially less than five per cent, and will be conservative under any circumstances.

"Derivation of Acreages, Acre-Pound Values and Weighted Average Pressures

IV. Estimation of Quadrant Acreage

"Although the maps varied somewhat in scale, the field outlines and the quadrant boundaries were drawn in such a manner that if the maps were all adjusted to the same scale, the boundary lines would coincide. The size and shape of the quadrants were determined from consideration of two factors, the first being necessarily the limitation of the radius of action of the planimeter tracer arm. The second consideration is the desire and necessity of having each quadrant area include wells whose general pressure-production characteristics are similar or related with special regard to drainage configurations.

"The planimeter was run around the boundary of the

quadrant area. This reading (Reading 1) was recorded and checked by a verification run. The individual isobar areas (continuous areas bounded by isobar and boundary lines) were now measured individually by the planimeter and their readings recorded. When all the constituent isobar areas of a quadrant had been measured, the individual areas were totaled, and this sum was compared to the reading (Reading 1) of the entire quadrant area. If this total did not check closely with Reading 1, the area was replanimetered until a check was obtained.

"(It is necessary here to note that a single run around the boundary of the unknown area will give a closer approximation of the area than will the summation of the small isobar areas comprising the measured area. Whenever a planimeter run is made, errors arise from a combination of human and instrumental factors, the total error of which is in direct proportion to the length of line followed by the tracer point. The length of line traced in outlining the total area is much less than the summation of the perimeters of the constituent isobar areas. Hence the proportion of error to area for the single run around the entire area is less than the proportion of the sum of the constituent isobar errors to their total area.)

"V. Conversion of Planimeter Reading to Acreage

"In each of the quadrants there were large tracts of land of known acreage. To obtain a conversion factor between planimeter readings and acreage, the following method was used:

> "The planimeter was carefully run around the perimeter of the tract of known acreage and the planimeter reading noted. The known tract acreage was then divided by the planimeter reading to obtain a conversion factor between the planimeter reading and acreage. In each case as large a block of acreage which could be defined within the quadrant was chosen. This was done to get as representative a conversion factor as could be obtained in each case, consideration being given to size and distribution of tracts of known acreage throughout the quadrant."

The Trial Examiner: Mr. Hammer, right there in con-

nection with your quadrant, does this heavy square on the map indicate—

The Witness: You mean, for example, you will find the Roman numbers in the center?

The Trial Examiner: Yes.

The Witness: That represents the quadrant.

The Trial Examiner: That represents the quadrant?

The Witness: Yes.

Mr. Lange: You are now referring to the map attached to this exhibit?

The Witness: That is right.

"VI. Application of Conversion Factor

"The conversion factor was now applied to the summation of the isobar areas to obtain a total quadrant acreage and also to the individual isobar areas to obtain acreages lying between isobar lines. The acreage lying between isobar lines or isobar lines and the field boundary were now multiplied by the average of the boundary isobar pressures to obtain each acre-pound value. The summation of the isobar area acre-pound values within the quadrant constitutes the unadjusted acre-pound value for the quadrant.

"VII. Adjustment of Quadrant Acreages and Acre-Pound Values

"The quadrant areas in acres were calculated for each of the quadrants over the five-year series of maps. Hence there were five separate calculations of each quadrant acreage, each of which differed in value by a small amount from the others. To obtain an average acreage which could be used for all calculations, the five different acreages were added together and their sum divided by five. The quotient or average acreage was now considered the adjusted quadrant acreage for each of the five years and was used in further calculations.

"To obtain adjustment factors for each of the five years in order to adjust the yearly acre-pound values of the quadrants, the original quadrant acreage value was divided into the adjusted acreage value. The individual isobar acre-

pound values were then multiplied by this adjustment factor to obtain adjusted isobar acre-pound values. The sum of the isobar acre-pound values in a quadrant was considered the adjusted quadrant acre-pound value. (Adjustment of the acreages and acre-pound factors was necessary, for these values, together with production data, were to be used in a relationship in which all values must be commensurate. For example, if a quadrant acre-pound value for one year were to be compared to the same quadrant acre-pound value for another year, it is seen that the acre-pound values have to be calculated from the same acreage value, otherwise no true comparison exists.)

"VIII. Derivation of Quadrant Weighted Average Pressures for Each of the Five Years.

"The quadrant weighted average pressures were obtained by dividing each yearly quadrant acre-pound value by the quadrant acreage."

The witness further testified with respect to Exhibit 179 (the map) that the red line indicates the outer lines of all of the quadrants in which Canadian River Gas Company has producing acreage, and those are the lines to which he made reference in his statement that he just read, where an adjustment had to be made. The Arabic letter groups that appear inside the red lines represent the approximate remaining reserves per acre in Mcf. in the area of Canadian River Gas Company's holdings. The name "Amarillo" appearing at the lower left-hand corner of the map means the city of Amarillo, Texas.

The witness further stated in explanation of the map that the development in Potter and Moore Counties during the period from 1935 to 1939 had a very marked tendency to make a somewhat uniform pressure distribution over those areas, and that from 1935 to 1939, inclusive, there was an area running across Carson County and across and into Gray County beginning at the extreme southwestern corner of Hutchinson County, Quadrant 3, and cutting across the extreme northern part of Quadrant 4, Carson County; across Quadrant 3, Carson County, and across Quadrant 2, Carson County, and into Quadrant 4 in Gray County. The pressure decline in this area has been normal for the area, but there

has been a marked drop in isobars across that territory that has been constant from the beginning up to the present time. The witness stated that he did not know what caused this, but he did think it was very significant. He stated that it could be an area of low permeability, or it might be caused by some change is deposition, but whatever the cause, the situation has remained constant over the period.

The witness then stated that he had prepared another exhibit entitled, "Statement of Gas Reserves and Method of Calculation, Canadian River Gas Company," which is Exhibit 180. This exhibit was then identified and later received in evidence, over objection of Company counsel.

The objection and ruling of the examiner is reflected by the following (Vol. 90, pp. 13657-13660):

Mr. Keffer: If the Examiner please, the respondents object to the admission of Exhibit 180 prepared by Mr. Hammer for the reason that the exhibit is wholly irrelevant, incompetent, immaterial for various reasons and among those reasons is the fact that Mr. Hammer has stated repeatedly upon his cross examination that he did not take into account the geology of the field producing formations as such, their characteristics, and has eliminated from all consideration many factors which would necessarily affect the result and which must necessarily be considered if a correct result is to be reached; and stated finally his approach was that of a mathematician's approach to the problem, merely taking into account weighted average decline pressures as he determined them with respect to production.

It is our position that his background in this method is wholly insufficient to reach any result that is entitled to any consideration whatsoever. In enumerating briefly some of our specific objections to the exhibit I do not mean in any sense of the word to limit our objections to those specific matters detailed but resting upon the general objection that the exhibit is wholly irrelevant and incompetent and immaterial.

Mr. March: Mr. Examiner, most of the objections have gone to the merits of the exhibit rather than to the competency of the exhibit and the materiality of the exhibit. Mr Hammer testified in applying the pressure decline method

as he applied it he applied it to the whole and as to the Canadian River acreage that automatically drainage was one of the things taken into consideration;

Not only that, his method applied here is a method which has been applied by other persons in estimating reserves in the Panhandle field of Texas and it is a well established and well known method. It has scientific backing and we feel that it is competent; it is relevant—it is relevant alone because there have been exhibits heretofore offered and put into evidence by counsel for the company utilizing another method, the porosity thickness method, and certainly an estimate of reserves is most competent and most relevant in this case if we are going to determine in any respect the life of the reserves in the field.

The fact of the business is we couldn't determine this rate case unless we had some evidence of the life of the field and the life of the Canadian River reserves in the field.

The Trial Examiner: In so far as the Examiner is concerned, the Examiner is satisfied that the study presented has been presented by an able and competent geologist and he has employed a recognized method.

Now, the matters he did consider or did not consider to me go to the weight to be given to the study rather than to the admissibility of the study and inasmuch as this evidence is carefully weighted, it seems to me that it would do no harm for it to come into the record.

On the grounds stated the objection will be overruled and Exhibit No. 180 will be received.

The witness then read a prepared statement as follows (Vol. 51, pp. 7089-7101):

A. "The future remaining gas reserves under land controlled by the Canadian River Gas Company in the Texas Panhandle field are summarized as follows:

"1. All calculations arriving at the reserves are made on a pressure base of 14.65 pounds absolute. The pressures taken were well head closed-in pressures.

"2. The determinations were made by the application of the principles of Boyle's Law.

"3. The estimate of remaining reserves of gas beneath the lands of the Canadian River Gas Company as of August 1, 1939, are 3,645,213,000 Mcf., calculated to a 25-pound well-head abandonment pressure."

At that point I wish to call attention to the fact that there is a slight discrepancy there between the figure presented and the figure that I gave to the accountant. That discrepancy—

Q. When you are referring to the figure you gave the accountant, is that 3,645,213,000 Mcf.?

A. Yes, sir.

Q. Very well.

A. It was brought to my attention by the fact that I couldn't estimate or couldn't arrive at the exact amount of acreage assigned to the Canadian River Gas Company in one or two certain areas. It was impossible to assign more acreage to an area than actual planimetering of the maps indicated. That brought about that small discrepancy there. It amounts to only—well, it is only three or four-tenths of one per cent. It was so small that I didn't see any reason why it should be called to the attention of the accountants so that they would be required to recalculate the work.

Q. Very well.

A. I will read that again, starting with Paragraph 3.

"3. The estimate of remaining reserves of gas beneath the lands of the Canadian River Gas Company as of August 1, 1939, are 3,645,213,000 Mcf., calculated to a 25-pound well head abandonment pressure.

"4. The calculated ultimate reserve beneath these lands is, to zero well head pressure, 4,269,165,000 Mcf.; and to an abandonment pressure of 25 pounds, the estimate is 4,018,609,000 Mcf.

"5. At an assumed annual withdrawal of 50 billion cubic feet, the remaining reserves will last for a period of 73.7 years.

"Details of the method used and tabulation of basic data follow in this exhibit."

Q. Will you explain in connection with each of these

tables and charts that are appended to the exhibit; first, your Table 1 following the written statement, and tell us exactly what the nature of the calculations is that appear on that table?

A. That is a tabulation of the years, the quadrant acreage, quadrant acre-pound factor, quadrant weighted average pressure and accumulated production for all quadrants that were utilized in this estimate.

Q. Now, your Table 2, turn to Page 3.

A. Table 2 is a sample calculation showing the solution by which we arrived at the Mcf. per acre-pound decline from a simultaneous equasion derived from the method of least squares.

Q. I notice that the data appearing here was taken from Table 3. Is that the following table?

A. Yes, that is right.

Q. Will you relate that to this Table 2?

A. I think I can best illustrate that by stepping to the map.

Q. Very well.

A. Quadrant 3 that we used, for an illustration, is this triangular area here in the northwestern part of Potter County. We realized that no one could arbitrarily draw a line and say that the area within—the line delimiting that area would not be affected by adjacent areas, in order to arrive at a fair determination of the problem.

Furthermore, wells noted over a period of five years indicated there have continually been a low pressure area in that part of that Quadrant.

Q. Speaking of Quadrant 3, Potter County?

A. Yes. The configuration of the isobars over the five-year period indicated that there was a larger percentage of gas, a larger amount of gas, rather, being produced out of this area—

Q. Speaking now of Quadrant 3?

A. —than seemed to be warranted from the withdrawal of the surrounding isobars. To arrive at the production per acre-pound of this area we took in this area—

Q. Hartley County, which the red figures "13,713" indicates?

A. There is only one quadrant there so we didn't indicate it.

Q. I see.

A. Quadrant 3 of Moore County, Quadrant 2 of Moore County, Quadrant 3 of Potter County and Quadrant 2 of Potter County. We determined from those the production per acre-pound decline and applied it to Quadrant 3.

Q. That is Potter County.

A. Potter County.

I might state that same principle has been followed through in the entire calculations in this exhibit. While it moves from west to east—it would apply the other way—when we came over to determine the reserve of Quadrant 2—

Q. Potter County?

A. Potter County.

—we eliminated Hartley County, but we utilized Moore County, Quadrant 2, Moore County, Quadrant 3—

Q. Potter County?

A. Potter County.

—Potter 2, Potter 1, and Moore 1, to arrive at it, and took the production per acre-pound decline and applied it to that Quadrant.

Q. Quadrant 2?

A. Quadrant 2.

—and it likewise eliminates those to the west that were not immediately adjacent to the area in question.

Q. Now, turn to Page 4, Exhibit 180, Mr. Hammer—

A. All right.

Q. You have there an explanation of the construction of curve. What curve are you referring to in this exhibit?

A. I am referring to the curve immediately following the statement.

Q. Appearing at Page 4 of the exhibit?

A. That is right, appearing at Page 4-B of the exhibit. It is entitled "Quadrant Group Decline Curve, Quadrant III, Potter County, Texas."

Q. You may proceed with that explanation.

A. "The same groups of quadrants, together with their total acreage, weighted pressures and accumulated production for the mathematical determination of the gas reserves of Potter County, Quadrant III, as are used in the sample calculations, are also used here.

"The slope of the curve is determined by multiplying the total acreage (229.712A.) by the previously determined production per-acre-pound decline (35.1 Mcf.), arriving at a factor of 8,062,891; then arbitrarily choosing some pressure on the pressure decline scale, subtract this pressure from the original 1935 pressure, then multiply such drop in pressure by the factor of 8,062,891.

"The points on this curve were determined by the following data:

"Pressure decline in pounds—"

The Trial Examiner: I don't think it will be necessary for us to read these figures. The reporter will copy them in.

(At the direction of the Trial Examiner, the following statement was copied into the record:)

422.7	—	400	equals	22.7
422.7	—	375	"	47.7
442.7	—	350	"	72.7
422.7	—	325	"	97.7

Then—	8,062,891 x 22.7	equals	183,027,626	Mcf.	at 400	lbs.
	8,062,891 x 47.7	"	384,599,901	"	" 375	"
	8,062,891 x 72.7	"	586,172,176	"	" 350	"
	8,062,891 x 97.7	"	787,744,451	"	" 325	"

The Witness: "The projection of the curve arrives at a figure of 3,207,000,000 Mcf., ultimate reserve from August 1, 1935 to an abandonment pressure of 25-pounds well-head gauge, 422.7 lbs. — 25 lbs. equals 397.7 or functional pressure to well-head abandonment of 25-pound gauge.

"397 x 8,062,891 equals 91,356,462

"3,207,000,000 divided by 91,356,462 equals 35.0999 (35.10) Mcf. per-acre-pound decline, also the functional pressure

"397.7 x 8,062,891 equals 3,206,611,751 Mcf.

"After the curve had thus been constructed, the pressures for 1935, 1936, 1937, 1938 and 1939 were plotted against the accumulated production showing the proper position of those points on the projected curve.

"There is thus shown that the method of calculating the

production per acre-pound decline by the simultaneous equations derived from the application of the method of least squares, is fair, applicable, and as exact as supporting data will permit."

* * * * *

Q. On Page 4, Paragraph 2, you refer to the total acreage of 229,712 acres?

A. Yes, that is the total acreage embraced in all these quadrants that were used for the determination of the acre-pound. In other words, it is for that acreage embraced in this area here. It embraces the area of Quadrant 2 and 3, Potter County; Quadrant 2 and 3, Moore County, and that part of the territory in Hartley County.

Q. What relation does the total acreage have to the total acreage of Canadian River Gas Company, for instance?

A. Well, this factor hasn't any relationship that I am using now.

Q. It has none?

A. No.

Q. It has no place in this picture except that it is the total acreage you used in developing your formula?

A. That is right, and in arriving at the production per acre-pound.

Q. That is the only purpose of the total acreage shown here?

A. That is right.

By Mr. Lange:

Q. Now, Mr. Hammer, tell us about the curve at Page 4-C.

A. I made no written statement on that because it occurred to me that it was almost self-explanatory. The title of Curve 4-C is "Enlarged Partial Group Decline Curve, Quadrant, Quadrant III, Potter County, Texas." That means the same data, the same information and a portion of the same curve as on the preceding curve on Page 4-B. The purpose of this curve or this partial curve as is stated on the curve itself "Illustrating that calculated decline curve not only follows the straight line characteristics of pressure decline versus accumulated gas withdrawals, but gives a truer and more conservative slope than interpolated construction."

The three lines of the three curves, of them "A" was drawn to indicate the probably maximum decline curve that

anyone could draw on the data at hand—I mean, draw it without any mathematical calculation, it would be the most probable decline in relation. In other words, if you drew that Curve B simply placing a straight edge on there and trying to get the proper spacing as between all of these various points, that would probably be the slope that would be decided by the average engineer.

Curve C is a decline curve based on factor of 35.1 Mcf. per acre-pound decline as determined by mathematical method. The curve drawn through the large circles on this is the slope determined by the mathematical calculation.

Those smaller circles are the accumulated production for this area utilized plotted against the weighted pressures for each one of the five years. The purpose of that curve is to illustrate that the slope of the curve as calculated not only follows the decline as it should against volume removed but also shows that the method is more conservative, at least in this case, than if someone would draw the curve manually.

* * * * *

I would like to refer back a moment to the curve on Sheet 4-B. It is the only thing I believe I didn't explain on this curve and that is the large circles represent the calculated points based on the 35.1 production per acre-pound, and the small circles represent the points where accumulative production is plotted against pressures. I don't believe I mentioned that before.

The point there is to illustrate that the calculated slope will fall at the proper position as against the accumulated production plotted against the drop in pressure. That is the only point that I wanted to explain regarding that.

Q. That is all in regard to Curve 4-B?

A. That is right.

Q. Now proceeding to Table 4 and Table 5, Page 4 of 4—

A. Tables 4 and 5—haven't we missed Table 3?

Q. That is right. You had just referred to the relation.

A. Table 3 simply shows the various groups of areas or Quadrants that were utilized in arriving at a production per acre-pound decline factor for each of the quadrants

in which Canadian River Gas Company has producing acreage.

Q. All right, Now, Table 4?

A. Table 4 shows the calculated remaining reserve for the entire quadrant in which the Canadian River Gas Company has producing acreage, and Table 5 shows the calculated remaining reserve of the Canadin River Gas Company as of August 1, 1939, gas in Mcf. at 14.65 pounds per square inch absolute.

This table shows the quadrant in question, the weighted average pressure for 1939, the functional pressure—now, that term "functional pressure" represents the difference between weighted averages of August 1939 and abandonment pressure of 25 pounds well-head gauge. I believe I explained this situation previously.

* * * * *

Q. On Table 4 you show the remaining reserve at 25 pounds abandonment pressure for the sum total of your various quadrants used there, is that correct?

A. The remaining to 25 pounds abandonment pressure.

Q. In Table 5 you show remaining reserve in Canadian River Gas acreage without any reference in your title to 25 pounds abandonment pressure. Am I correct in assuming, however, if you applied your note indicated by the asterisk in each instance you would arrive at the same point, whether it is in the title or not?

A. That is right, they are both on the same basis.

* * * * *

A. The total reserve there is simply a summation of the calculated reserve for the Canadian River Gas Company productive acreage in each quadrant. That remaining reserve per acre over there is derived by dividing the estimated remaining reserve by the total acreage in the quadrant and those are the figures that are placed on that map; that is, the figures in red.

Q. The map is in Exhibit No. 179?

A. That is right.

Q. The acreage figures in red pencil on the map is in Exhibit No. 179?

A. Yes. They are simply placed on there to give sort

of a graphic picture of the variables in remaining reserve over the area.

The witness then read into the record a further explanation of Exhibit 180 as follows (Vol. 51, pp. 7101-7109):

"As the gas reserves in each quadrant were all calculated by the same method an illustration of the method is given in the case of one of them. Illustration example; Quadrant III Potter County.

"I. Grouping of Quadrants.

"In order to obtain the accumulated production versus pressure decline relation for this quadrant, it was first necessary to choose those quadrants immediately adjacent to Quadrant III which, after a study of isobar configurations, indicated the truest relationship between production and pressure factors having an effect on that quadrant. The data from these quadrants was then grouped together with that from Quadrant III for the purpose of deriving a production per acre-pound decline value.

"II. Basic Data, Table I.

"The basic data of each of the Quadrants entering into the calculations of those quadrants in which the Canadian River Gas Company owns acreage is found in Table I. This contains a summary of quadrant acreages, quadrant acre-pound values, quadrant weighted average pressures and quadrant accumulated production since August 1, 1935 to August 1, 1939.

"The quadrant acreage in Column D, the quadrant acre-pound values in Column E, and the quadrant weighted average pressures in Column F were derived as explained in a preceding section entitled 'Derivation of Acreages, Acre-pound Values and Weighted Average Pressures.'

"The weighted average pressure in Column F is derived by dividing the acre-pound value in Column E by the quadrant average in Column D.

"III. Calculation Data, Table III.

"Table III contains the tabulated data for the calculation of reserves in all quadrants having acreage owned by the Canadian River Gas Company as explained in accord-

ance with the criteria shown in Paragraph 1, grouping of quadrants.

"The combination of quadrants for the calculation of the production per acre pound decline value for quadrant III Potter was chosen from table III. These data are found in Column A, Lines 20 and 23, the years Column B, the total acreage of the group in Column C, the group acre-pound value in Column D and the group accumulated production from August 1, 1935 to August 1, 1939 in Column F. The group weighted average pressure, Column E, was obtained by dividing the group acre-pound value for each of the years by the constant group acreage.

"The group acreage (col. C, line 21), the group weighted average pressures from 1935 to 1939 (column E, lines 21 to 25), and the group accumulated productions from 1935 to 1939 (column F, lines 21 to 25) were taken from table III for the sample calculation of Quadrant III Potter shown on table II.

"IV. Sample Calculation, Table II:

"Table II illustrates the method followed to derive a production per acre-pound decline value for reserve acreage. The weighted average pressures versus the accumulated production data (table II) can be interpreted by the straight line equation: (See table II A. Graph of Quadrant III Potter data)

"$P = a - b\,Q$ where

"P is weighted average well head closed in pressure (Column C)

Q is the accumulated production by years from August 1, 1935 corresponding to P (Column D)

a and b are constants to be determined.

a: representing the pressure at zero production

b: representing the rate of change of pressure with production (gas withdrawal). Q.

"By the reasoning of the method of least squares the constant b may best be determined from the following two simultaneous equations.

"Eq. (1)

$$SP = Na - bsQ$$

"Eq. (2)

$$SPQ = aSQ - bsQ^2$$

"Where N = the number of data points. (In this case 5)

"SP = the sum of the P's (P = Pressures)

SQ = the sum of the Q's (Q = Volume of gas removed* (S = Summation)

SPQ, is the sum of the products of each P multiplied by the corresponding Q (i.e. 419. S in Column C, line 2 x 26,020,994 in Column D, line 2), and

SQ^2 is the sum of the squares of each Q [i.e. $(26{,}020{,}994)^2$ Column D, line 2 = 67.709213×10^{13}, Column F, line 2]

"Eq. (3)

Multiplying equation (1) by $\frac{SQ}{N}$ we obtain

$$\frac{SP.SQ}{N} = aSQ - \frac{b}{N}(SQ)^2$$

"Eq. (4)

Subtracting equation (3) from equation (2)

$$SPQ - \frac{SP.SQ}{N} = bSQ^2 \text{ plus } \frac{b}{N}(SQ)^2$$

"Solving for b in equation (4)

$$b = \frac{SPQ - \frac{SPSQ}{N}}{\frac{(SQ)^2}{N} - SQ^2} = \frac{NSPQ - SPSQ}{(SQ)^2 - NSQ^2} = \frac{SPSQ - NSPQ}{NSQ^2 - (SQ)^2}$$

"Now b is the change in weighted pressure for a change in production for the group 4 area. Since it is desired to know the change in production for change in weighted pressure for one acre, we take the reciprocal of b (i.e. $\frac{1}{b}$) and divide the reciprocal by the group acreage A, giving

"Eq. (5)

$$\frac{1}{Ab} = \frac{NSQ^2 - (SQ)^2}{A(SPSQ - NSPQ)}$$

"Equation 5 was then placed in line 7 of table II. When the proper values are substituted in this last equation and

the solution completed, it results in a value of 35.10 Mcf. per acre pound decline.

"This value is inserted in column G, line 25, of table III, column G, line 7 of table IV and column G, line 18 of table V where it is used to calculate the remaining reserves for the Canadian River acreage in table V and the remaining reserves of the quadrant in table IV.

"V. Remaining Reserves of Quadrants Containing Acreage of the Canadian River Gas Company, Table IV.

"The acreage for Quadrant III Potter County was obtained from table I (Column D, Line 21) and inserted in table IV (column E, line 7). In like manner the 1939 weighted average pressure of Quadrant III was obtained from table I (Column F, line 25) and placed in table IV (column C, line 7). To obtain the effective drop to an abandonment wellhead closed-in pressure of 25 pounds per square inch gauge, 25 pounds was subtracted from this weighted average pressure and the result tabulated in table IV (column D, line 7). The effective acre-pound value for the pressure decline to abandonment was then obtained by multiplying the acreage (column E, line 7) by the effective pressure drop (column D, line 7) and tabulating the result (column F, line 7). The acre-pound decline value (column F, line 7) multiplied by the production per acre-pound decline factor (column G, line 7) yields the Quadrant remaining reserve as of August 1, 1939 (column H, line 7). This remaining reserve divided by the quadrant acreage of 33389 yields the average remaining reserve per acre for the quadrant (column I, line 7).

"The reserves and the average reserves per acre for the other quadrants were derived in exactly the same manner.

"VI. Remaining Reserves of Canadian River Acreage, Table V.

"The values in table V were computed in exactly the same manner as they were in table IV, with the exception that the weighted average pressures of Canandian River acreage lying within Quadrant III Hutchinson County, and Quadrant IV Carson County, Table V (column C, lines 14 and 15) did not happen to coincide with the weighted average

pressures of the two quadrant acreages, Table IV (column C, lines 3 and 4). In the majority of quadrants, the Canadian River acreage was well enough distributed over the high and low pressure acreas so that its weighted average pressure would be very close to the weighted average pressure of the quadrant. However, in Hutchinson III and Carson IV, the acreage happened to be concentrated in areas of higher pressure than the average of the respective quadrants; hence, separate calculations were made to obtain the weighted average pressures of the acreage in Hutchinson III and Carson IV, according to the Canadian River acreage's areal pressure distribution. The Canadian River acreage weighted average pressure was then employed, as was the quadrant weighted average pressure in the other examples, to obtain the remaining reserves for Canadian River acreage in Hutchinson III and Carson IV.

"The remaining reserves and the average remaining reserve per acre values for Canadian River acreage were then tabulated in Table V (columns H and I)."

By Mr. Lange:

Q. Is there any other matter in connection with this Exhibit No. 180 which you believe should be given further description or that you should amplify at this time or clarify in any respect?

A. I think of nothing else at the moment.

Q. And the estimate of reserves as stated on Page 1 of your Exhibit 180, Canadian River Gas Company, are those as found by you as of August 1, 1939?

A. Yes, sir.

Q. And in your opinion from the line of your experience and the examination of the materials had and all of the information available, it represents in your opinion the correct estimates?

A. It is without doubt the best judgment. The methods used and the determination of the reserves at which I arrived were in my opinion the best that can be determined for the area under consideration.

Q. In Exhibit No. 180 or Exhibit No. 179 no attempt is made by you to either discuss or in any way give any opinion with reference to any matters of drainage?

A. No. except this, that in the utilization of the isobaric method of the determination of gas reserve, the method automatically takes into consideration certain drainage factors. If it did not take into consideration certain drainage factors; it wouldn't be applicable for usage but it has automatically taken into consideration certain factors.

Q. Those will be presented in a subsequent statement with reference to drainage?

A. There will be a subsequent exhibit and discussion of the question of drainage as a whole.

The witness further testified as follows (Vol. 51, pp. 7109-7120):

Q. You have just stated in answer to Mr. Lange's last question that your isobaric method; the preparation of the map with the isobaric contours on it did take into account automatically some of the methods of drainage?

A. That is right.

Q. I take it it doesn't adjust itself completely to the drainage question?

A. No, that is right.

Q. Would you mind stating what those elements are pertaining to drainage that you did take into account?

A. Automatically the construction of isobars indicate the differential in pressure between low and high pressure areas.

Q. I understand that, but from the standpoint of estimating a reserve I was wondering how that is accounted for in any drainage or took any drainage into account.

A. I hoped that I explained that a while ago. That was one of the reasons why we grouped these very quadrants, to arrive at a determination of the acre-pound factor, because a study of the isobaric maps over a period of five years indicated there was a drainage to and from it and that has been taken into consideration.

Q. That is, you took it into consideration in determining the outside lines of your quadrant areas?

A. Well, I don't know that I understand exactly what you mean.

Q. Maybe I didn't make it clear and I don't think I quite understood you, and I don't intend to get into the drainage question either.

My only thought was to clarify in my mind, at least, the

extent to which these isobar contour lines, if you term them that, took into account drainage in any manner whatsoever insofar as calculating the reserve in each of your quadrant areas.

A. I think I can answer it this way: The area, that is, the quadrants utilized in arriving at a production per acre-pound factor are so sufficiently large that they cover, at least have covered during the five-year period any area that might have any bearing on the question of the movement of gas to or from the areas in which the Canadian River Gas Company has acreage.

Q. Yes, I understand that. Let me ask you this and it may clarify it somewhat: Your isobar lines show different pressure gradients, that is, they are constructed on a basis of 10-pound variances in pressures between each line, is that correct?

A. Yes.

Q. Now, your flow of gas is in what direction from the standpoint of your map as shown by your isobar lines on there?

A. As a usual thing it is at right angles.

Q. That is right. It is from the high pressure or high pressure isobar lines to the next lower pressure and on to the next lower and on and on just like water running down hill, isn't it?

A. That is true. The very fact that you may have low and high pressure areas—that is what I meant when I said it automatically considered those.

Q. I was wondering if that was what you had in mind regarding that.

A. Yes.

Q. In other words, take your own map. Near the four corners of Monroe, Hutchinson, Potter, and Carson Counties your isobar lines there show a pressure just cutting the four corners there of how much?

A. Well, that isobar there is 360 pounds.

Q. 360 pounds?

A. Yes.

Q. Then the next line to the southwest is 370 pounds, is it not?

A. 370 as you go south, that is right.

Q. And the next to the southwest is 380 and on and on at 10-pound intervals?

A. That is right.

Q. Now, with just as that is illustrated, take your *reservour* conditions on your isobar line indicated by 390 with reference to your isobar line shown as 360. You would have a 30-pound differential in pressure there, wouldn't you?

A. That is true.

Q. And the movement of gas underground would be in what direction between those two points?

A. I will have to qualify my answer there.

Q. All right.

A. It doesn't necessarily mean there is a movement of gas for the simple reason that these wells existing in the area between your 380 and 370, the gas withdrawn from the wells in that area have been largely responsible for that pressure differential and not in any long distance drainage.

Q. All right, suppose you shut those wells in for the time being and then what would happen?

A. If you could assume a condition where a person would shut his wells in for a year or two you might have drainage.

Q. Aside from drainage, you have a movement of gas from high pressure areas to low pressure areas?

A. There is no argument about that on the average.

Q. All right, and except as it may be influenced by producing wells as you have just stated, your isobar map would indicate very definitely and very specifically the movement of the gas underground assuming that it is moving?

A. With the exception that the migration factor is very largely affected by the permeability factor. It won't be the same at all points.

Q. That is very true. You will find it is moving more rapidly in some areas than in other areas?

A. That is correct.

Q. I appreciate that. Now, Mr. Hammer, you have designated on your quadrants a figure which determines, as I take it, the reserve remaining per acre in each of those quadrant areas?

A. Yes, that is right.

Q. Do you have the figures on that readily available showing what your original reserves were in each of those quadrants where you show the remaining reserve?

A. I don't know that I have it here. I will see.

Q. Well, if you can get that—you needn't get it right now, but we would like to have that.

A. Well, I have got it here.

Q. All right. you stated in one of your statements, I believe, that it was extremely difficult—in fact, you stated it a time or two, as I construed it, extremely difficult to take an isolated area and determine the reserve of gas in that area without considering its relationship to the surrounding areas?

A. To the immediately surrounding areas.

Q. Yes. All right, now, with respect to the determination of the reserves of Canadian River, you necessarily had to a very great extent at least, consider the field-wide picture, did you not, Mr. Hammer?

A. No, I did not.

Q. You didn't?

A. No.

Q. Have you considered the field-wide picture with respect to reserves generally in the Panhandle area?

A. Only in just a passing way, is all.

Q. In other words, you have made no estimate of the reserves in the Panhandle field as such?

A. I have made a general estimate, largely for the purpose of general information only.

Q. And as a matter of comparison, I take it. The two are so closely associated you almost had to have that, didn't you, to test your work on Canadian River?

A. No, I didn't have to have that at all.

Q. You didn't?

A. No.

Q. Well, did you in any event arrive at such a figure in connection with this work?

A. I arrived at a figure for the total field, future reserve.

Q. Well, I am wondering, in fact, as we view the matter, at least, it would be necessary for you to take the overall picture and your determination of the overall picture to get any satisfactory approach to the Canadian River picture, and in view of that our geologists would like to go over your working papers with you to that extent and determine the relationship between the two, at least from our theory, even though it might not be true as to yours.

Mr. March: If it please the Examiner, as far as that information is concerned, we will make available all working papers relative to the estimated reserves of Canadian River acreage as covered in this exhibit, but Mr. Hammer has testified that he has not prepared in connection with his estimate of reserves of Canadian River an estimate of the reserves of the entire field. He is not here offering an exhibit which shows the estimates of reserves of the entire field. If that were done, why, we—and we had prepared such an exhibit to offer, we would be glad to make available any working papers in regard to that exhibit.

Now, Commission's counsel's position, Mr. Keffer, is this, that we will make available to you all working papers relative to this exhibit. Now, I know that you are interested in the overall picture of the entire field—

Mr. Keffer: Very much.

Mr. March: Incidentally, we are not. We are interested in Canadian River's acreage directly, and so that is our position, but we will make available all working papers that we possibly can.

If there is any disagreement as to that, we can discuss that this evening and clear it up. That is our position.

Mr. Spencer: Well, Mr. Examiner, I am glad we have reached this point, that if a witness says that he has done something in connection with this study and his working papers or something else that he may have utilized in that connection are not available, we should have known that a long time ago. The witness said that he did make a figure on the gas reserves of the field in connection with his work here. Now, certainly it is competent, material and relevant to the issues we are here discussing, and I am not asking for any more working papers that he has, but whatever working papers he may have in connection with that field reserve figure, I think we are entitled to examine them.

Mr. March: We aren't offering an exhibit that gives the reserves of the field. Mr. Hammer says that that was not essential to this exhibit at all, that he does have some idea that if this method were applied to the ~~entire~~ field, he has some idea as to what the final figure would be, but as to an

exhibit and as to working papers in regard to that, we do not have them nor are they available for examination nor are we offering an exhibit in that regard.

We are making available all of the working papers in regard to this exhibit, however. An estimate of the reserves of the entire field has absolutely no bearing whatsoever on this particular exhibit. We don't have such an exhibit to offer in this case.

Mr. Spencer: I would suggest that the Examiner ask the witness what he has got.

The Trial Examiner: I feel like this, Mr. Spencer, with regard to these working papers, that unless counsel voluntarily makes those papers available which pertain to matters that the witness perhaps has considered but is not going to testify to in this proceeding, I feel that I have little, if any, discretion in that matter.

Now, if the witness undertakes to testify as to the total reserve in the Panhandle field, I think that would present a slightly different picture, but his testimony, as I understand it, will be confined entirely to the reserves underlying the acreage of the Canadian River Gas Company and if Commission's counsel makes the working papers underlying this particular exhibit available, which they have agreed to do, why, it seems to me that the Examiner would have little discretion in the present controversy.

Mr. Spencer: The Examiner may be right, and, of course, we would be bound by his ruling. If counsel wants to hold back anything related to the reserves in this field or acreage, I think we are on a different basis now as to making available working papers. We certainly have held nothing back.

Mr. March: Mr. Spencer, we are not going to hold one thing back in regard to this exhibit. Now, I know you gentlemen would like to have us present an estimate of reserves of this entire field. We have determined that that is not necessary to arrive at the Canadian River acreage reserve. We have not done that. We have no working papers and no exhibit to offer in that connection. You have got to have an exhibit before you can have working papers; so we have no

papers on the entire fields whatever, and we don't want to hold back one thing.

By Mr. Keffer:

Q. Mr. Hammer, have you arrived at a figure for the field as a whole?

A. You say, had I arrived at a figure?

Q. Yes, a figure with respect to the reserves in the Panhandle field as a whole.

A. As I stated, on academically, a figure that until I have done more work I would not want to attempt to support.

Q. Well, in taking into consideration the Canadian River reserve you have considered a lot of acreage that is not Canadian River acreage, didn't you? Your map here shows that.

A. Oh, yes.

Q. That's right, you went beyond the confines of the Canadian River block, so to speak, and considered some of Texoma, Panhandle Eastern acreage, Shamrock and acreage of many other producing companies.

A. I wasn't at all interested in who owned the acreage or anything of that type.

Q. That is very true, yet you did—

Mr. Spencer: Just a minute.

The Witness: The only reason that that acreage was utilized was to cover a sufficiently large area so that I would be in the position of having all of the area in that would have any direct bearing on the areas in which Canadian River had its acreage.

The following tables and plats were attached to and formed a part of Commission Exhibit 180:

TABLE I

SUMMARY
OF
QUADRANT ACREAGE, QUADRANT ACRE-POUND FACTOR, QUADRANT WEIGHTED AVERAGE PRESSURE AND
ACCUMULATED PRODUCTION SINCE AUGUST 1, 1935

(A)	Quadrant Used in Calculation (B)	Year (C)	Quadrant Acreage (D)	Quadrant Acre-Pound Values (E)	Quadrant Weighted Average Pressure (F)	Accumulated Production Since Aug. 1935 (G)
	Hartley	1935	32,906	14,113,298	428.9	0
		1936		14,112,147	428.9	793,677
		1937		14,047,499	426.9	3,322,690
		1938		13,952,964	424.0	5,112,209
		1939		13,928,532	423.3	6,785,156
	Potter I	1935	57,588	24,176,000	419.8	0
		1936		23,961,000	416.1	6,350,014
		1937		23,815,000	413.5	16,118,207
		1938		23,582,000	409.5	26,884,883
		1939		23,196,000	402.8	38,098,487
	Potter II	1935	44,937	18,966,000	422.0	0
		1936		18,869,000	419.9	5,139,895
		1937		18,628,000	414.6	10,662,205
		1938		18,497,000	411.6	16,471,851
		1939		18,191,000	404.8	22,663,102
	Potter III	1935	33,389	14,198,000	425.2	0
		1936		13,985,000	418.9	5,107,348
		1937		13,938,000	417.5	12,490,159
		1938		13,847,000	414.7	18,423,562
		1939		13,607,000	407.5	23,675,254
	Moore I	1935	62,173	23,819,359	383.1	0
		1936		23,364,975	375.8	22,420,751
		1937		23,115,452	371.8	48,575,340
		1938		22,704,031	365.2	75,542,559
		1939		22,108,761	355.6	106,900,904
	Moore II	1935	61,866	25,624,302	414.2	0
		1936		25,396,197	410.5	11,292,097
		1937		24,933,023	403.0	28,809,489
		1938		24,248,578	392.0	54,733,964
		1939		23,238,433	375.6	83,195,880
	Moore III	1935	56,614	24,212,903	427.7	0
		1936		24,061,291	425.0	3,687,977
		1937		24,005,464	424.0	8,812,810
		1938		23,878,600	421.8	13,616,200
		1939		23,574,156	416.4	19,825,970
	Moore IV	1935	28,775	12,364,650	430.0	0
		1936		12,364,650	430.0	0
		1937		12,253,421	426.1	0
		1938		12,227,488	425.2	719,687

Quadrant Used In Calculation (H)	Year (I)	Quadrant Acreage (J)	Quadrant Acre-Pound Values (K)
Moore V	1935	62,614	26,580,646
	1936		26,303,793
	1937		25,952,293
	1938		25,577,709
	1939		24,861,166
Moore VI	1935	70,556	32,460,060
	1936		31,855,029
	1937		31,278,671
	1938		29,964,818
	1939		29,106,200
Hutchinson II	1935	50,658	10,579,045
	1936		10,385,449
	1937		10,314,726
	1938		10,042,966
	1939		9,862,606
Hutchinson III	1935	53,967	15,920,702
	1936		15,708,405
	1937		15,299,718
	1938		15,010,397
	1939		14,601,992
Hutchinson IV	1935	46,157	18,132,760
	1936		17,935,802
	1937		17,641,497
	1938		17,058,999
	1939		15,235,188
Carson III	1935	70,985	30,145,100
	1936		29,541,800
	1937		28,746,700
	1938		28,195,800
	1939		27,446,200
Carson IV	1935	40,251	16,409,700
	1936		16,175,600
	1937		15,929,200
	1938		15,472,200
	1939		15,160,100

Exhibit No. [illegible]

TABLE I

SUMMARY
OF
QUADRANT ACREAGE, QUADRANT ACRE-POUND FACTOR, QUADRANT WEIGHTED AVERAGE PRESSURE AND
ACCUMULATED PRODUCTION SINCE AUGUST 1, 1935

Quadrant Acreage (D)	Quadrant Acre-Pound Values (E)	Quadrant Weighted Average Pressure (F)	Accumulated Production Since Aug. 1935 (G)	Quadrant Used In Calculation (H)	Year (I)	Quadrant Acreage (J)	Quadrant Acre-Pound Values (K)	Quadrant Weighted Average Pressure (L)	Accumulated Production Since Aug. 1935 (M)	(N)
32,906	14,113,298	428.9	0	Moore V	1935	62,614	26,580,646	424.5	0	
	14,112,147	428.9	793,677		1936		26,303,793	420.1	3,390,624	
	14,047,499	426.9	3,322,690		1937		25,952,293	414.5	10,797,995	
	13,952,964	424.0	5,112,209		1938		25,577,700	408.5	20,141,371	
	13,928,532	423.3	6,785,156		1939		24,861,166	397.1	30,697,349	
57,588	24,176,000	419.8	0	Moore VI	1935	70,556	32,460,060	408.0	0	
	23,961,000	416.1	6,350,014		1936		31,855,029	400.4	14,433,687	
	23,815,000	413.5	16,118,207		1937		31,278,671	393.2	41,710,710	
	23,582,000	409.5	26,884,883		1938		29,964,818	376.7	77,333,909	
	23,196,000	402.8	38,098,487		1939		29,106,200	365.9	114,958,335	
44,937	18,966,000	422.0	0	Hutchinson II	1935	50,658	10,579,045	208.8	0	
	18,869,000	419.9	5,139,895		1936		10,385,449	205.0	53,039,510	
	18,628,000	414.6	10,662,205		1937		10,314,726	203.6	95,746,558	
	18,497,000	411.6	16,471,851		1938		10,042,966	198.3	134,176,315	
	18,191,000	404.8	22,663,102		1939		9,862,666	194.7	162,490,577	
33,309	14,198,000	425.2	0	Hutchinson III	1935	53,967	15,920,702	295.0	0	
	13,985,000	418.9	5,107,348		1936		15,708,405	291.1	55,415,234	
	13,938,000	417.5	12,490,159		1937		15,259,718	282.8	96,450,840	
	13,847,000	414.7	18,423,562		1938		15,010,397	278.1	134,318,909	
	13,607,000	407.5	23,675,254		1939		14,601,992	270.6	172,449,968	
62,173	23,819,359	383.1	0	Hutchinson IV	1935	46,157	18,132,760	392.8	0	
	23,364,975	375.8	22,420,751		1936		17,935,802	388.6	2,801,562	
	23,115,452	371.8	48,575,340		1937		17,641,497	382.2	6,629,322	
	22,704,031	365.2	75,542,559		1938		17,058,999	369.6	11,913,000	
	22,106,761	355.6	106,900,904		1939		15,235,188	330.1	21,566,975	
61,866	25,624,302	414.2	0	Carson III	1935	79,985	30,145,100	376.9	0	
	25,396,197	410.5	11,292,097		1936		29,541,800	369.3	35,487,550	
	24,933,023	403.0	28,889,489		1937		28,746,700	359.4	76,082,878	
	24,248,578	392.0	54,733,964		1938		28,195,800	352.5	113,656,197	
	23,238,433	375.6	83,195,880		1939		27,446,200	343.1	147,625,322	
56,614	24,212,303	427.7	0	Carson IV	1935	40,251	16,409,700	407.7	0	
	24,061,291	425.0	3,687,977		1936		16,175,600	401.9	12,423,965	
	24,005,464	424.0	8,812,810		1937		15,929,200	395.7	29,186,069	
	23,878,600	421.8	13,616,200		1938		15,472,200	384.4	48,732,042	
	23,574,156	416.4	19,825,970		1939		15,160,100	376.6	69,278,445	
28,775	12,364,650	430.0	0							
	12,364,650	430.0	0							
	12,253,421	426.1	0							
	12,227,488	425.2	719,687							

Exhibit No. 11

TABLE II

SAMPLE CALCULATION

OF PRODUCTION ~~PER ACRE-POUND~~ DECLINE

Quad. III Potter County Illustrated

Data Taken From Table III Summary
(Production Per Acre-Pound Decline
Basic Data)

Year	A Group Acreage	P Group Weighted Average Pressure	Q Group Accumulated Production	PQ	Q^2
1935	229712 ●	422.7	0	0	
1936	●	419.8	26020994	10.923613×10^9	67.709213×10^{13}
1937		416.0	64177353	26.697779×10^9	$411.873264 \times 10^{13}$
1938		411.1	108357786	44.545886×10^9	$1174.140979 \times 10^{13}$
1939		402.8	156145362	62.895352×10^9	$2438.137407 \times 10^{13}$
		*SP = 2072.4	SQ = 354701495	SPQ = 145.062630×10^9	SQ^2 = $4091.860863 \times 10^{13}$
(A)	(B)	(C)	(D)	(E)	(F)

Production Per Acre-Pound = $\dfrac{NSQ^2 - (SQ)^2}{A(SPSQ - NSPQ)}$ **

$N = 5$

$NSQ^2 = 5 \times 4091.860863 \times 10^{13} = 204.593045 \times 10^{15}$ (M.C.F.)^2

$(SQ)^2 = (354701495)^2 = 125.81315 \times 10^{15}$ (M.C.F.)^2

$SPSQ = 2072.4 \times 354701495 = 7350.834 \times 10^8$ (Pounds x M.C.F.)

$NSPQ = 5 \times 145.062630 \times 10^9 = 7253.1315 \times 10^8$ (Pounds x M.C.F.)

$NSQ^2 - (SQ)^2 = 204.593045 \times 10^{15} - 125.81315 \times 10^{15} = 78.779895 \times 10^{15}$ (M.C.F.)^2

$SPSQ - NSPQ = 7350.834 \times 10^8 - 7253.1315 \times 10^8 = 9.7702 \times 10^8$ (Pounds x M.C.F.)

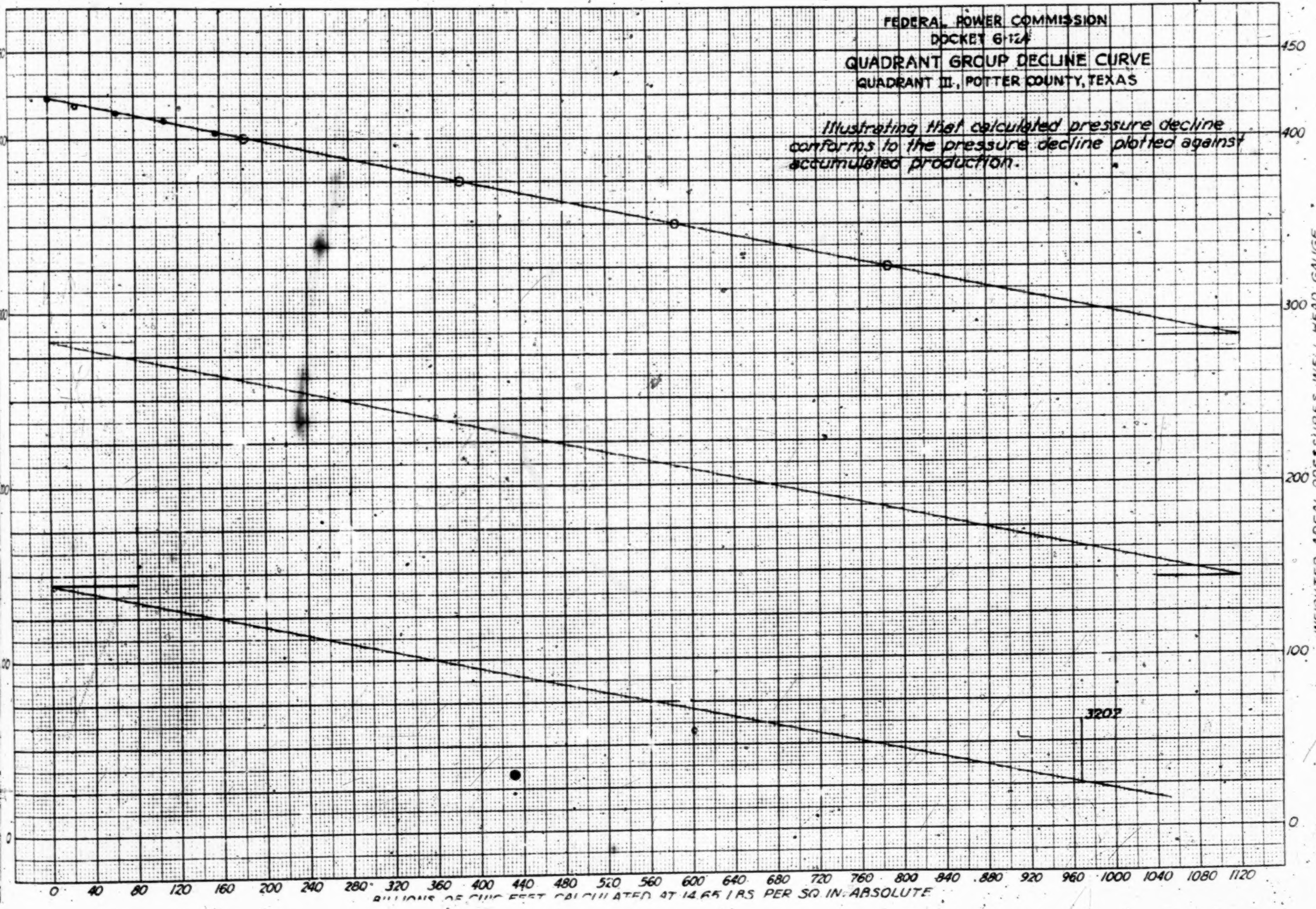
$A = 2.29712 \times 10^6$ Acres

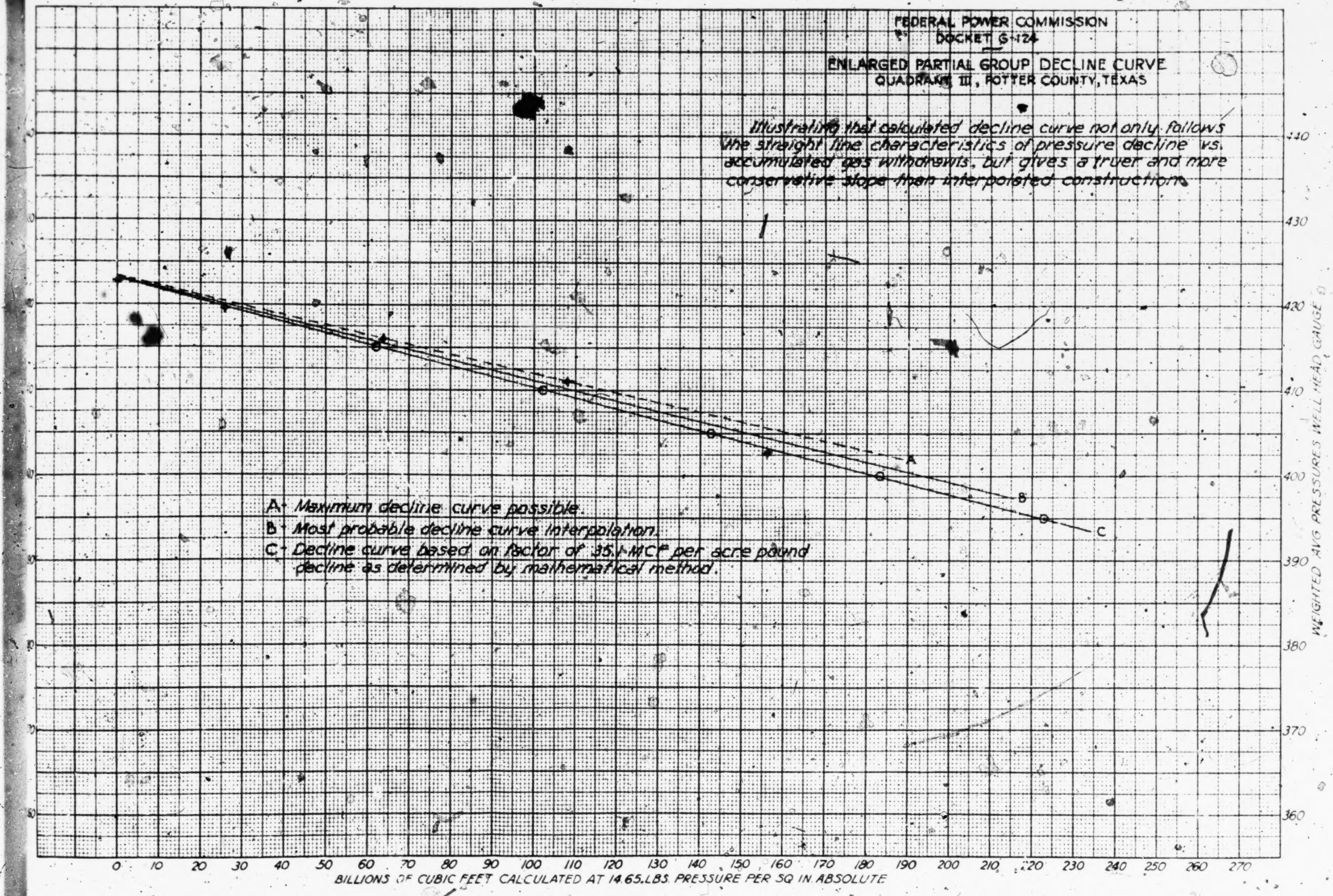
Production Per Acre-Pound Decline = $\dfrac{78.779895 \times 10^{15} \text{ (M.C.F.)}^{\cancel{2}}}{2.29712 \times 10^6 \text{ Acres} \times 9.7702 \times 10^8 \text{ (Pounds x } \cancel{\text{M.C.F.}})}$ = **35.10 M.C.F./Acre-Pound**

* Denote Summation of Quantities

** For Derivation of this Equation See P. 7

Exhibit No. 180





FEDERAL POWER COMMISSION
DOCKET G-124
ENLARGED PARTIAL GROUP DECLINE CURVE
QUADRANT III, POTTER COUNTY, TEXAS
Illustrating that calculated decline curve not only follows the straight line characteristics of pressure decline vs. accumulated gas withdrawls, but gives a truer and more conservative slope than interpolated construction.
A - Maximum decline curve possible.
B - Most probable decline curve interpolation.
C - Decline curve based on factor of 35.1 MCF per acre pound decline as determined by mathematical method.
A
B
C
440
430
420
410
400
390
380
370
360
WEIGHTED AVG PRESSURES WELL HEAD GAUGE
0
10
20
30
40
50
60
70
80
90
100
110
120
130
140
150
160
170
180
190
200
210
220
230
240
250
260
270
BILLIONS OF CUBIC FEET CALCULATED AT 14.65 LBS. PRESSURE PER SQ IN. ABSOLUTE

TABLE III

SUMMARY
OF
PRODUCTION PER ACRE-POUND DECLINE
BASIC DATA

Quadrants Used In Calculation (A)	Year (B)	Group Acreage (C)	Group Acre-Lb. (D)	Weighted Average Pressure (E)	Accumulated Production From Aug.1, 1935 (F)	Production Per Acre-Lb. Decline Calculated (G)	Quadrants Used In Calculation (H)	Year (I)	Group Acreage (J)
Hartley							**Moore II**		
HA, P III,	1935	151,664	64,888,851	427.8	0		P I, P II	1935	487,492
M III, M IV,	1936		64,523,088	425.4	9,589,002		P III, M I	1936	
	1937		64,244,384	423.6	24,625,659		M II, M III	1937	
	1938		63,906,052	421.4	37,871,658		M IV, M V	1938	
	1939		63,259,621	417.1	52,120,127	34.43	M VI	1939	
Potter I							**Moore III**		
P I, P II	1935	320,782	124,916,063	389.4	0		HA, P II	1935	321,081
M I, M II	1936		123,475,177	384.9	113,041,956		P III, M II	1936	
H III, C IV	1937		121,680,393	379.3	229,882,150		M III, M IV	1937	
	1938		119,514,206	372.6	356,683,708		M V	1938	
	1939		116,496,286	363.2	492,586,826	58.97		1939	
Potter II							**Carson IV**		
P I, P II	1935	316,567	130,998,564	413.8	0		C III, C IV	1935	344,622
P III, M I	1936		129,650,463	409.6	53,998,082		P I, M I	1936	
M II, M III	1937		128,431,939	405.7	125,548,210		H II, H III	1937	
	1938		126,758,209	400.4	205,672,519			1938	
	1939		123,868,350	391.2	294,359,597	42.71		1939	
Potter III							**Hutchinson III**		
HA, P II	1935	229,712	97,114,503	422.7	0		H III, H IV	1935	339,692
P III, M II	1936		96,423,635	419.8	26,020,994		M I, M VI	1936	
M III	1937		95,551,986	416.0	64,177,353		P I, C IV	1937	
	1938		94,424,140	411.1	108,357,786			1938	
	1939		92,539,121	402.8	156,145,362	35.10		1939	
Moore I									
P I, P II	1935	462,952	183,856,769	397.1	0				
M I, M II	1936		181,733,999	392.6	130,866,267				
M V, M VI	1937		178,911,357	385.6	282,390,855				
H III, C IV	1938		175,056,733	378.1	454,158,988				
	1939		170,463,742	368.2	644,242,570	47.88			

3665-3667

Exhibit No. 18

TABLE III

SUMMARY
OF
PRODUCTION PER ACRE-POUND DECLINE
BASIC DATA

Accumulated Production From Aug. 1, 1935 (F)	Production Per Acre-Lb. Decline Calculated (G)	Quadrants Used In Calculation (H)	Year (I)	Group Acreage (J)	Group Acre-Lb. (K)	Weighted Average Pressure (L)	Accumulated Production From Aug. 1, 1935 (M)	Production Per Acre-Lb. Decline Calculated (N)
		Moore II						
0		P I, P II	1935	487,492	202,403,920	415.2	0	
9,589,002		P III, M I	1936		200,173,935	410.6	71,822,393	
24,625,659		M II, M III	1937		197,916,324	406.0	178,056,915	
37,871,658		M IV, M V	1938		194,528,224	399.0	303,867,486	
52,120,127	34.43	M VI	1939		189,985,739	380.7	447,849,088	36.82
		Moore III						
0		HA, P II	1935	321,081	136,059,799	423.8	0	
113,041,956		P III, M II	1936		135,092,078	420.7	29,411,618	
229,882,150		M III, M IV	1937		133,757,700	416.6	74,975,348	
356,683,708		M V	1938		132,229,339	411.8	129,218,844	
492,586,826	58.97		1939		129,550,220	403.5	194,676,458	30.58
		Carson IV						
0		C III, C IV	1935	344,622	121,049,906	351.2	0	
53,998,082		P I, M I	1936		119,137,229	345.7	185,137,024	
125,548,210		H II, H III	1937		117,180,756	340.0	362,159,892	
205,672,519			1938		115,007,354	333.7	533,310,315	
294,359,597	42.71		1939		112,374,779	326.1	696,843,743	81.43
		Hutchinson III						
0		H III, H IV	1935	339,692	130,918,581	385.4	0	
26,020,994		M I, M VI	1936		129,000,811	379.8	113,845,313	
64,177,353		P I, C IV	1937		127,039,538	373.9	238,670,488	
108,357,786			1938		123,792,445	364.4	374,724,802	
156,145,362	35.10		1939		119,408,331	351.5	523,253,214	45.94
0								
130,866,267								
282,390,855								
454,158,988								
644,242,570	47.88							

TABLE IV

REMAINING RESERVE TO 25 LBS. ABANDONMENT PRESSURE

OF QUADRANTS CONTAINING ACREAGE OF THE CANADIAN RIVER GAS CO. AS OF

AUGUST 1, 1939 - GAS IN M.C.F. AT 14.65 POUNDS PER SQ. IN. ABS.

	County	Quadrant	1939 Wtd. Avg. Pressure	Functional Pressure*	Acreage	Acre-Lbs.	Production Per Acre-Pound Decline
1.	(A)	(B)	(C)	(D)	(E)	(F)	(G)
2.	Hartley	Hartley	423.3	398.3	32,906	13,106,460	34.43
3.	Hutchinson	III	270.6	245.6	53,967	13,254,295	45.94
4.	Carson	IV	376.6	351.6	40,251	14,152,252	81.43
5.	Potter	I	402.8	377.8	57,588	21,756,746	58.97
6.	Potter	II	404.8	379.8	44,937	17,067,073	42.71
7.	Potter	III	407.5	382.5	33,389	12,771,293	35.10
8.	Moore	I	355.6	330.6	62,173	20,554,394	47.88
9.	Moore	II	375.6	350.6	61,866	21,690,220	36.82
10.	Moore	III	416.4	391.4	56,614	22,158,720	30.58
11.	TOTAL				443,691		

*Functional Pressure is 1939 Weighted Average Pressure Minus 25#/IN².

TABLE V

REMAINING RESERVE

OF CANADIAN RIVER GAS CO. ACREAGE

AS OF AUGUST 1, 1939 - GAS IN M.C.F. AT 14.65 POUNDS PER SQ. IN. ABS.

12.	County	Quadrant	1939 Wtd. Avg. Pressure	Functional Pressure*	Acreage	Acre-Lbs.	Production Per Acre-Pound Decline
13.	Hartley	Hartley	423.3	398.3	14,358	5,718,791	34.43
14.	Hutchinson	III	319.2	294.2	5,347	1,573,117	45.94
15.	Carson	IV	362.6	337.6	5,670	1,914,192	81.43
16.	Potter	I	402.8	377.8	48,825	18,446,085	58.97
17.	Potter	II	404.8	379.8	42,125	15,999,151	42.71
18.	Potter	III	407.5	382.5	33,289	12,733,043	35.10
19.	Moore	I	355.6	330.6	26,592	8,791,438	47.88
20.	Moore	II	375.6	350.6	28,661	10,048,676	36.82
21.	Moore	III	416.4	391.4	17,648	6,907,368	30.58
22.	TOTAL CANADIAN RIVER GAS CO.				222,515		

*Functional Pressure is 1939 Weighted Average Pressure Minus 25#/IN².

TABLE IV

REMAINING RESERVE TO 25 LBS. ABANDONMENT PRESSURE

OF QUADRANTS CONTAINING ACREAGE OF THE CANADIAN RIVER GAS CO. AS OF

AUGUST 1, 1939 - GAS IN M.C.F. AT 14.65 POUNDS PER SQ. IN. ABS.

1939 Wtd. Avg. Pressure	Functional Pressure*	Acreage	Acre-Lbs.	Production Per Acre-Pound Decline	Remaining Reserve	Remaining Reserve Per Acre
(C)	(D)	(E)	(F)	(G)	(H)	(I)
423.3	398.3	32,906	13,106,460	34.43	451,255,000	13,713
270.6	245.6	53,967	13,254,295	45.94	608,902,000	11,283
376.6	351.6	40,251	14,152,252	81.43	1,152,418,000	28,630
402.8	377.8	57,588	21,756,746	58.97	1,282,995,000	22,279
404.8	379.8	44,937	17,067,073	42.71	728,935,000	16,221
407.5	382.5	33,389	12,771,293	35.10	448,272,000	13,426
355.6	330.6	62,173	20,554,394	47.88	984,144,000	15,829
375.6	350.6	61,866	21,690,220	36.82	798,634,000	12,909
416.4	391.4	56,614	22,158,720	30.58	677,614,000	11,969
		443,691			7,133,169,000	16,077

*Functional Pressure is 1939 Weighted Average Pressure Minus 25#/IN².

TABLE V

REMAINING RESERVE

OF CANADIAN RIVER GAS CO. ACREAGE

AS OF AUGUST 1, 1939 - GAS IN M.C.F. AT 14.65 POUNDS PER SQ. IN. ABS.

1939 Wtd. Avg. Pressure	Functional Pressure*	Acreage	Acre-Lbs.	Production Per Acre-Pound Decline	Remaining Reserve	Remaining Reserve Per Acre
423.3	398.3	14,358	5,718,791	34.43	196,898,000	13,713
319.2	294.2	5,347	1,573,117	45.94	72,269,000	13,516
362.6	337.6	5,670	1,914,192	81.43	155,873,000	27,491
402.8	377.8	48,825	18,446,085	58.97	1,087,766,000	22,279
404.8	379.8	42,125	15,999,151	42.71	683,324,000	16,221
407.5	382.5	33,289	12,733,043	35.10	446,930,000	13,426
355.6	330.6	26,592	8,791,438	47.88	420,934,000	15,829
375.6	350.6	28,661	10,048,676	36.82	469,992,000	12,909
416.4	391.4	17,648	6,907,368	30.58	211,227,000	11,969
		222,515			3,645,213,000	16,343

*Functional Pressure is 1939 Weighted Average Pressure Minus 25#/IN².